LAMB MEAT FROM NEW ZEALAND

Determination of the Commission in Investigation No. 701-TA-80 (Preliminary) Under Section 703(a) of the Tariff Act of 1930, Together With the Information Obtained in the Investigation

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UNITED STATES INTERNATIONAL TRADE COMMISSION

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Note.--Data which would disclose confidential operations of individual concerns may not be published and, therefore, have been deleted from this report. Deletions are indicated by asterisks.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

Investigation No. 701-TA-80 (Preliminary)

LAMB MEAT FROM NEW ZEALAND

Determination

On the basis of the record 1/ developed in investigation No. 701-TA-80 (Preliminary), the Commission determines 2/ that there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, 3/ by reason of imports from New Zealand of lamb meat, provided for in item 106.30 of the Tariff Schedules of the United States (TSUS), which are allegedly being subsidized by the Government of New Zealand.

Background

On April 23, 1981, a petition was filed with the U.S. Department of Commerce by counsel for the National Wool Growers Association, Inc., Salt Lake City, Utah, alleging that imports of lamb meat from New Zealand are being subsidized within the meaning of section 303 of the Tariff Act of 1930 (19 U.S.C. § 1303). The National Lamb Feeders Association, Inc., Menard, Tex., became a copetitioner on May 12, 1981. As New Zealand was not at that time a "country under the Agreement" within the meaning of section 701(b) of the act (19 U.S.C. § 1671(b)), there was no requirement for the petition to be filed with the Commission pursuant to section 702(b)(2) (19 U.S.C. § 1671a(b)(2)) and no requirement for the Commission to conduct a preliminary

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1/ The record is defined in § 207.2(j) of the Commission's Rules of Practice and Procedure (19 CFR § 207.2(j)).

2/ Chairman Alberger and Commissioner Stern dissenting.

3/ Commissioner Frank finds only that there is a reasonable indication of threat of material injury.

material injury investigation pursuant to section 703(a) (19 U.S.C. § 1671b(a)).

However, on September 17, 1981, the United States Trade Representative announced that New Zealand had become a "country under the Agreement" (46 F.R. 46263). Accordingly, Commerce terminated its investigation under section 303, initiated an investigation under section 702, and notified the Commission of its action on September 21, 1981.

Therefore, effective September 21, 1981, the Commission, pursuant to section 703(a) of the act (19 U.S.C. § 1671b(a)), instituted preliminary countervailing duty investigation No. 701-TA-80 (Preliminary) to determine whether there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from New Zealand of lamb meat, provided for in item 106.30 of the TSUS, upon which bounties or grants are alleged to be paid.

Notice of the institution of the Commission's investigation and of a public conference to be held in connection therewith was duly given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and by publishing the notice in the Federal Register on September 30, 1981 (46 F.R. 47898). The conference was held in Washington, D.C., on October 16, 1981, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF VICE CHAIRMAN CALHOUN AND COMMISSIONERS
BEDELL, ECKES, AND FRANK

The Domestic Industry

Section 771(4)(A) of the Tariff Act of 1930 defines the term "industry" as--

> The domestic producers as a whole of a like product, or those producers whose collective output of the like product constitutes a major proportion of the total domestic production of that product. 1/

Section 771(10), in turn, defines "like product" as--

> (A) product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this title. 2/

Thus, in order to determine the appropriate domestic industry for purposes of a Title VII investigation, we must first determine the domestic product that is "like, or in the absence of like, most similar in characteristics and uses, with" the imported product under investigation. Then, we must identify the domestic producers of that "like product."

The imported product under investigation is lamb meat from New Zealand. The meat is imported frozen to prolong shelf life and to facilitate shipping. Most of the imports are primal cuts (e.g., loins, racks), although some smaller cuts (e.g., lamb chops) and whole carcasses are imported as well. 3/ New Zealand lamb carcasses are typically smaller than the U.S. product, in part because of the breed of lamb, and in part because New Zealand lambs are

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1/ 19 U.S.C. § 1677(4)(A) (Supp. III 1980).
2/ 19 U.S.C. § 1677(10) (Supp. III 1980).
3/ Commission report on Inv. No. 701-TA-80 (Preliminary), Lamb Meat From New Zealand at A-2 (hereinafter cited as "Report").

never fattened with grain. Only the top five grades of New Zealand meat are exported to the United States. 4/ These five grades correspond approximately to the U.S. Choice grade, the grade of lamb meat strongly preferred by the U.S. consumer. New Zealand lamb meat is marketed by the New Zealand Lamb Co., Inc., through grocery chains and through hotel, restaurant, and institutional (HRI) outlets. New Zealand Lamb Co., Inc. was established by New Zealand lamb producers as a subsidiary of the Meat Export Development Company (DEVCO) to promote and expand the sale in the United States of New Zealand lamb meat.

Lamb of the same cut and the equivalent grade is produced in the United States. However, domestic lamb is sold fresh or chilled, rather than frozen. U.S. consumers have a strong preference for fresh meat. Most of the lambs slaughtered, as well as most of the lamb carcasses destined for table use, are graded Choice. As with New Zealand lamb meat, the U.S. product is sold in grocery chains and through HRI outlets.

Counsel for the New Zealand Meat Board argues that fresh lamb and frozen lamb are not like products, because they are sold at different locations in the retail store, and because frozen lamb competes with items other than fresh lamb for shelf space. In addition, other distinctions are cited, namely, that the appearance of frozen lamb is not as appealing to the U.S. consumer, that the taste and texture of New Zealand lamb are slightly different, and that it has a longer shelf life.

We find no significant differences between the characteristics and uses of fresh lamb and those of frozen lamb. U.S. frozen lamb meat accounts for a

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4/ New Zealand's grading system, which uses 11 different grades, is more complex than that of the United States. Report at A-2.

negligible percentage of total domestic production, substantially all of which is fresh. In such circumstances, there can be no serious question as to domestic lamb meat being a like product to the imports under investigation. While freezing lamb meat eases handling and prolongs shelf life for the long distance supplier, it does not substantially change the characteristics or uses of the meat, nor is that the purpose of freezing the product. Any distinction in taste and texture between fresh domestic meat and the frozen imported meat does not appear to be commercially significant, based on the record developed to date.

The fact that imported lamb is sold frozen rather than fresh does not alter the market in which it competes. Although it may affect some of the factors in marketing the product, it does not alter the goods with which it competes, or the ultimate consumer for which it competes. While frozen lamb meat is in competition with products other than fresh lamb and other fresh meats for shelf space, its primary competitor remains fresh lamb meat. Similarly, the New Zealand product has to overcome the U.S. consumer's preference for fresh meat, but that does not alter the fact that imported lamb is competing to provide the same product to the same customer as is fresh lamb. The record evidences the fact that frozen New Zealand lamb competes directly with fresh, domestic lamb. 5/

5/ For example, advertisements showing frozen lamb meat from New Zealand being marketed side by side with fresh, domestic lamb meat were submitted as exhibits at the Conference. Mr. Sims of the National Wool Growers Association (NWGA) also testified at the Conference that as much as 10%-15% of the frozen New Zealand meat is thawed and sold as fresh. Respondents did not deny this, although they do not condone it. See also the testimony of Mr. Graeme Lindsay, Executive Vice President of the New Zealand Lamb Co., Inc., Conference transcript at 117-18.

The issue here is whether fresh lamb meat is "like" or "most similar in characteristics and uses with" frozen lamb meat. Since domestically produced lamb meat is, in essence, all fresh meat, nothing is gained in this preliminary proceeding by distinguishing between the two. 6/ Plainly, fresh lamb meat is at the least "most similar." It may well be "like." Thus, for purposes of this preliminary investigation, we conclude that fresh domestic lamb meat is "like" or "most similar in characteristics and uses with" the imported lamb meat from New Zealand under investigation.

One of the major issues in this investigation is to decide what group of producers constitutes the "domestic producers as a whole of [the] like product." 7/ Based on the statute, our finding concerning the domestic industry is a matter of first defining the like product, then aggregating those entities which produce that product. In most investigations, such an approach is easy to undertake and results in no serious anomalies.

In this investigation, such an approach, as a mechanical process, is rather easy to undertake. In the strictest sense, fresh lamb meat cuts and carcasses are "produced" by meat packers who process live lambs into cuts and carcasses. But such a mechanical analysis leads to a troublesome practical anomaly: to define the domestic industry as only processors and not growers and feedlot operators would seem, at this point in the investigation, to ignore the highly interdependent nature of lamb meat production.

6/ Congress indicated in its discussion of the definition of the like product that the statute should not be interpreted "in such a fashion as to prevent consideration of an industry adversely impacted by the imports under investigation." S. Rep. No. 96-249, 96th Cong., 1st Sess. 91 (1979).

7/ 19 U.S.C. § 1677(4)(A) (Supp. III 1980).

Ignoring such a high degree of interdependence and otherwise defining the industry as comprising only processors would focus our assessment of the impact of the allegedly subsidized imports on that segment of the lamb meat production process most able to minimize the impact of these imports, thereby disregarding the impact of such imports on the growers, that segment least able to adjust.

Because the true value of our analysis is a function of how well we integrate realities in the market place with the requirements of the statute, this case seems to compel us to view the industry as more than an aggregate of those entities producing cuts and carcasses. We must also take note of the structure of the system by which lamb meat is produced domestically.

The production of lamb meat for consumption begins with the breeding and raising of the ewe and ends with the slaughter and packing of lamb meat. 8/ The industry structure is highly integrated, with each step having as its primary, if not sole purpose, the production of one end product--lamb meat. In the United States today, sheep are raised for the primary purpose of producing lamb meat. The revenue from wool and other byproducts of sheep is secondary to that obtained from the production of lamb meat. Similarly, the principal purpose of the feeding stage of processing is to make the meat on the lamb the preferred grade for consumption. The process of slaughtering, dressing, cutting the carcass, and packing the meat represents the final stage of preparing the lamb meat for consumption.

The structure of this production process is accurately characterized as a single, continuous line of production, starting with one raw material that

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8/ See Report at A-9 for a more detailed description of the production of live lambs.

yields only one commercially significant end product. In this regard, this process is distinguishable from, for example, those in the industrial sector characterized by a high degree of interdependence between parts/components suppliers and manufacturers. Here, the initial raw material, a live lamb, yields only one major product, lamb meat. The lamb meat is not transformed into a different article throughout the process. The product remains substantially unchanged. The product yielded by each stage of the process has no commercial use except as a "raw material" for the next stage of processing. The structure of this industry is significantly different from, for example, a structure in which several different raw materials yield one end product, or one raw material yields several different end products.

We note that, in addition to integration, there is a high level of interlocking ownership in the U.S. lamb meat industry. Two major packers are owned by feedlot owners. 9/ One packer is owned by growers. 10/ Two packing companies are fully integrated; they produce, feed, slaughter and pack lambs. 11/ The petitioner estimates that these five packers account for over 50 percent of domestic packer capacity. 12/ Similarly, a number of commercial-scale feedlots are owned by growers. 13/

Were we to exclude the growers from the scope of this domestic industry, we would effectively preclude a significant portion of the domestic industry

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9/ Denver Lamb Co. and Texas Lamb Co. Report at A-12; Petitioner's Brief at 8.

10/ American Lamb Co. Petitioner's Brief at 8.

11/ Mike Chiapetti Co. and Superior Packing Co. Petitioner's Brief at 8.

12/ Petitioner's Brief at 8-9.

13/ For a partial list of feed lots owned by growers, see Petitioner's Brief at 9. It is worthy of note here that two-thirds of all lambs slaughtered spend some time on feed lots.

from any relief against subsidized imports. Such an anomalous result was not intended by Congress, as indicated by the legislative history. The purpose of the countervailing duty statute is to provide relief to industries adversely impacted by subsidized imports. 14/ In this regard, Congress foresaw special problems in the application of the countervailing duty provisions of the Trade Agreements Act of 1979 to agricultural products. The Senate Committee on Finance stated in the Committee report on the Trade Agreements Act of 1979:

> Because of the special nature of agriculture,. . . , special problems exist in determining whether an agricultural industry is materially injured. For example, in the livestock sector, certain factors relating to the state of a particular industry within that sector may appear to indicate a favorable situation for that industry when in fact the opposite is true. Thus, gross sales and employment in the industry producing beef could be increasing at a time when economic loss is occurring, i.e., cattle herds are being liquidated because prices make the maintenance of the herds unprofitable. 15/

We note that, in its discussion, the Committee in the context of analyzing material injury to an agricultural industry by reason of subsidized imports refers to the "industry producing beef," which clearly includes meat

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14/ 19 U.S.C. § 1671 (Supp. III 1980).

15/ S. Rep. No. 96-249, 96th Cong., 1st Sess. 88 (1979). Although it was discussed under the legislative history of § 771(7), the definition of the term "material injury," it unquestionably evidences congressional awareness of unique problems that could be confronted in providing relief under the statute for certain agricultural commodities.

packers and processors, and "cattle herds," which encompasses ranchers and feeders. Thus, it is clear that Congress not only anticipated this very issue, but also contemplated the inclusion of processors and growers in one industry. It is clear that Congress recognized the highly interdependent nature of the livestock sector of the economy, and did not intend the statutory definition of industry to preclude an assessment of material injury to an adversely impacted segment of a meat producing industry. For these reasons, we find the domestic industry to be comprised of packers, processors, growers and feeders.

Reasonable Indication of Material Injury 16/

In assessing material injury, the Act directs the Commission to consider, among other factors, (i) the volume of the imports under investigation, (ii) the effect of those imports on domestic prices of the like products, and (iii) the impact of the imports under investigation on domestic producers of like products. 17/

Volume of Imports.--The average of annual imports of lamb meat from New Zealand for the period of 1970 through 1977 is approximately 19 million pounds. 18/ Since 1976 the volume of imports from New Zealand has gradually increased, with import levels remaining higher than the 1976 level for all

16/ Commissioner Frank found a reasonable indication of threat of material injury only.
17/ 19 U.S.C. § 1677(7) (Supp. III 1980).
18/ Compiled by the Commission investigative staff from official statistics of the U.S. Department of Commerce.

years except 1977. 19/ Despite a small decline from 1979 to 1980, the 1980 level was 1,565,000 pounds higher than the 1976 import total. 20/

The share of apparent U.S. consumption held by imports from New Zealand rose from 7.3 per cent in 1976 to 9.9 percent in 1979, decreasing to 8.9 percent in 1980. 21/ The 1980 level of import penetration represents a 22 percent increase in the market share held by New Zealand lamb imports in 1976. 22/

Thus, data presently available indicate clear trends regarding these imports. With regard to volume and market penetration, New Zealand lamb exports have increased gradually and steadily. This pattern together with the apparent market conditions warrants further inquiry.

Effect of imports on prices--In evaluating the effect of imports on prices, we have examined domestic lamb prices at two levels: sale of live lambs to a meatpacker, and sale of carcasses and selected primal cuts to wholesalers. Since 1979, domestic live lamb prices have declined 12 percent. 23/ Wholesale prices dropped similarly, 24/ reflecting the pricing relationship inherent between these two levels of trade.

During the period since 1979, a period of relatively flat apparent domestic consumption and declining domestic wholesale lamb prices, import prices were steadily increasing, with the carcass equivalent price increasing

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19/ Compiled from official statistics of the U.S. Department of Commerce. In thousands of pounds, total imports from New Zealand were as follows: 27,217 in 1976; 17,239 in 1977; 29,576 in 1978; 30,550 in 1979; and 28,782 in 1980.

20/ Id.

21/ Report at A-29. The 1976 figure is based on data compiled by the Commission investigative staff from official statistics of the U.S. Department of Commerce.

22/ Based on official statistics of the U.S. Department of Commerce.

23/ Report at A-32, Table 19.

24/ See Report at A-39, Table 21.

at an average annual rate of 8 percent. 25/ At the same time the margins of underselling for carcasses and legs, which were considerable at the beginning of the period, decreased as imported lamb prices continued to increase and domestic prices decreased. 26/ However, there continues to be underselling. This pattern of underselling during the period since 1979 may have contributed to the domestic price decline.

DEVCO, through its U.S. subsidiary, has been able to maintain prices that are free of the fluctuations common to an agricultural commodity sector. These are, in large part, due to the U.S. producers' inability to control supply in the short run in response to changing market conditions. In contrast, DEVCO has control of the supply of the allegedly subsidized imports for marketing in that the imports are frozen and have much longer shelf life. 27/ Further, DEVCO has the ability to determine prices for all lamb supplied from New Zealand. 28/ These factors facilitate DEVCO's ability to control the price of imports. It also appears that both the domestic producers and DEVCO offer discounts on meat sales as part of advertising/marketing strategies. 29/ Although import prices appear to be without fluctuation, further information regarding price data reflecting these discount practices may demonstrate more clearly how import prices affect domestic pricing.

Domestic producers contend that imported lamb prices act to limit domestic price increases commensurate with increased costs. They believe

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25/ See Report at A-38.
26/ See Report at A-40.
27/ See Report at A-2.
28/ See Report at A-12.
29/ Report at A-39.

that, if they raise prices too far above the imported price, they will lose further market share to imported lamb. The loss of market share is critical because of the industry's low profitability, if not losses. Each incremental loss in market share becomes an additional loss of income needed to cover increasing production costs. That the total value of imports has increased significantly since 1979 along with consistent price increases, while domestic prices have declined indicates the possibility of an adverse impact of imports on domestic pricing.

It is evident that the complex relationship between import prices and domestic prices in this agricultural commodity market warrants further inquiry.

Impact of imports on the domestic industry.--We turn now to an examination of the impact of the imported lamb meat on the domestic industry. Our analysis, which is based upon the best information available to us in a rather limited amount of time, has included a careful review of the state of this industry and the conditions of trade, competition, and trends regarding it. 30/ We conclude that the domestic industry is in such a weakened condition that, even with the rather limited presence of allegedly subsidized lamb meat in the market place, there is a reasonable indication that these imports are a cause of material injury.

Several factors are immediately striking in an assessment of the state of the industry. First, from 1976 to 1980, annual lamb meat consumption in the United States declined from 372 million pounds to 323 million pounds. 31/

30/ See S. Rep. No. 96-249, 96th Cong., 1st Sess. 88 (1979).

31/ Compiled by the Commission investigative staff from official statistics of the U.S. Department of Agriculture and Commerce.

Also, the production of lamb meat fell from 341 million pounds in 1976 to 291 million pounds in 1980. 32/ Operations with sheep declined from 122,460 in 1976 to 115,530 in 1980. 33/ The number of sheep and lambs in feedlots declined irregularly from 1.884 million in 1976 to 1.622 million in 1980 before increasing in 1981 to 1.624 million, still less than the 1976 level. 34/ The number of lamb slaughtering plants has fluctuated, but generally has declined in recent years from 878 in 1976 to 849 in 1980. 35/ Lamb slaughter declined from 6.3 million head in 1976 to 5.2 million head in 1980. 36/ During the most recent period of this downturn, the returns above cash costs of producing sheep declined steadily per breeding ewe from $27.65 in 1978 to $24.87 in 1979 and $20.93 in the preliminary 1980 figures for a total 24 percent decline. 37/ When allowances for long run costs associated with borrowing capital are included in the analysis of costs and returns of producing sheep, the declining profits become net losses for 1979, 1980 and 1981 (projected). 38/ In contrast, total non-land costs have increased

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32/ Report at A-22. Because of an insufficient number of responses to questionnaires by lamb meat packers/processors, the Commission was unable to examine their capacity, capacity utilization and profitability. Data, if it were avilable, would be of limited assistance because most lamb meat production occurs in plants which can switch from processing one meat to another, based largely on market demand. We do know that lamb accounted for less than 1 percent of total red meat production in 1980. Id. Since the Commission does have reliable secondary source data concerning growers, who represent a major portion of the industry, our analysis is based largely on that data.

33/ Report at A-6.

34/ Report at A-7, Table 3. The 1976 figure is based on data compiled the Commission investigative staff from official statistics of the U.S. Department of Agriculture.

35/ Report at A-10.

36/ Report at A-11, Table 6.

37/ Report at A-21, Table 13. 1976 data for returns above cash costs are not on the record.

38/ Report at A-21.

steadily from $42.34 per breeding ewe in 1978 to a projected $60.37 in 1981. 39/ Thus, the declines in the lamb crop and lamb slaughter obviously have not led, as might have been expected, to price increases which would offset the rise in costs associated with lamb production.

This long term deterioration in the output of the U.S. lamb meat industry must have seriously weakened its ability to withstand even slightly increasing import competition. Given this clearly vulnerable, though viable, industry, we have found that the impact of imports of lamb meat from New Zealand has been such that the continuation of this investigation is warranted.

In the past, the market share held by imports may not have been significant with regard to its impact on the domestic industry. However, because the domestic industry has suffered several years of economic decline, it obviously has a decreasing ability to withstand a level of competition from allegedly subsidized imports which in prior years it countered. Thus, the impact of these imports might well be sufficient now to be found to be a cause of material injury or threat. Moreover, it is likely that the sustained presence of allegedly subsidized lamb over the past three years, even at a level of approximately 10 percent, during a period of rather steady decline in the health of the domestic industry, might have a cumulative impact of material injury today that was only marginal in any given period in the past.

For these reasons, we determine there is a reasonable indication of material injury to the domestic industry by reason of allegedly subsidized imports. A more complete investigation will afford all parties and the

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39/ Report at A-21. 1976 data for total non-land costs of raising sheep are not on the record.

Commission an opportunity to develop information which will address the concerns we have expressed here.

Reasonable indication of threat of material injury

New Zealand is the world's largest exporter of sheep meat, exporting more than twice as much as the second largest exporter, Australia. New Zealand has the third largest sheep population, and preliminary estimates for 1981 indicate that its total sheep population exceeds that of the United States by over 5 times. Moreover, both sheep population and lamb meat production in New Zealand have been increasing in recent years. 40/

Additionally, the record evidences intent on the part of the New Zealanders to expand their share of the U.S. lamb market. Petitioners submitted an article from The New Zealand Herald, Feb. 28, 1980, which stated that "The [United States] market has reached a point where DEVCO believes that sales can improve by 20 percent a year and eventually reach a total of 5 million lambs." In addition, letters submitted on behalf of two lamb processors 41/ stated that the Executive Vice-President of the New Zealand Lamb Co., Inc. had indicated to them at regional woolgrower association meetings that New Zealand exports to the United States would increase by 7 to 10 percent next year. Further, inventory levels indicate that New Zealand has the capacity to vastly increase its current level of exports to the United States. Inventories of lamb meat imports from New Zealand increased by 13 percent from December 31, 1979, to December 31, 1980, and by 34 percent from

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40/ Report at A-14-A-15.

41/ Denver Lamb Co., letter of October 13, 1981, to Kenneth Mason; American Lamb Co., letter of October 20, 1981, to Kenneth R. Mason.

August 31, 1980, to August 31, 1981, showing an increase from * to * percent of apparent U.S. domestic consumption for the latter comparative year to year period. 42/ This capacity is demonstrated by New Zealand's dramatic growth of exports of lamb meat to the Middle East. The May 1980 adoption by the European Economic Community (EEC) of a voluntary restraint agreement for imports of New Zealand lamb meat commencing October 1980, apparently precludes any opportunity for significant increase in such exports to the EEC by New Zealand. 43/

Commissioner Frank, in making his determination of a reasonable indication of threat of material injury, notes that New Zealand in recent years has also evidenced skillful and aggressive marketing capabilities, with an ability to fill particularized demands of new market opportunities with speed and agility. 44/ In this regard, it bears reiteration that New Zealand authorizes only one company, DEVCO, through its U.S. subsidiary the New Zealand Lamb Co. to import and sell lamb in the United States. DEVCO has stated that its pricing policy in the United States is to maintain a relatively stable price, with general price levels based on its costs. 45/ However, it is worthy of note that, as import prices generally increased while domestic wholesale prices of lamb were in decline during 1979 through September 1981, thus lessening margins of underselling; nonetheless imports were able to maintain relatively stable market penetration in a relatively

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42/ Report at A-28.
43/ Report at A-17.
44/ E.g., New Zealand has rapidly increased its exports of lamb to Iran recently.
45/ Report at A-37; Conference transcript at 123.

flat domestic market. Imports certainly are subject to certain other exogenous factors in the domestic market affecting prices of domestic products which may dampen prices (e.g. competition with other domestic meats, discretionary personal income levels). Yet, the import products' sole U.S. "distributor" is insulated from the vagaries of the domestic commodity market, unlike domestic grower/feedlot operators and packers, by virtue of its ability to control inventory quantities and timing of entry of the imported product and therefore potentially more precisely control pricing; and it is reasonable to assume New Zealand's advertising and promotional programs are tailored to exploit or are, in effect, exploiting domestic seasonality and commodity market fluctuations to which it is comparably immune.

In view of New Zealand's large capacity to produce sheep, the stated intent to significantly expand sales in the U.S. market, the evident comparative advantage in shaping a pricing policy that appears at this juncture to have some possible adverse impact on domestic prices, coupled with an indication of potential domestic industry vulnerability to the above, we have determined that there is a reasonable indication of threat of material injury to the domestic lamb industry by reason of imports of New Zealand lamb.

DISSENTING VIEWS OF CHAIRMAN BILL ALBERGER AND
COMMISSIONER PAULA STERN

On the basis of the record developed in this preliminary investigation, we have found that there is no reasonable indication that an industry in the United States is materially injured or is threatened with material injury by reason of imports of frozen lamb meat from New Zealand, for which subsidies are allegedly provided by the Government of New Zealand.

The Domestic Industry

We concur with the majority's definition of the scope of the domestic industry. We agree with their conclusion that the "like product" for the purpose of this investigation is domestic lamb meat, the bulk of which is retailed in fresh or chilled form. Respondents argue that fresh or chilled domestic lamb meat is not "like" the frozen product from New Zealand. However, the record establishes that all these products have identical uses and very similar characteristics. The form in which they are retailed does not alter the fact that they are virtually interchangeable and compete head to head in the marketplace.

Another issue upon which there was controversy is whether our analysis of the industry should include growers who raise live lamb for slaughter. For various reasons, we believe it should. First, there is evidence of common ownership among growing and processing operations. Second, and more important, growers appear to depend on lamb meat sales for the vast majority of their revenue. While there are other commercial by-products from growing lamb, the only reason for the extensive and costly feeding operations is to prepare the lamb meat for human consumption. Thus, the industry appears to be a continuous line of production, with growing, feeding, and processing all inseparably connected with the marketing of lamb meat.

For all of these reasons, we find that the domestic industry includes not only the packers and processors of lamb meat, but also those entities which grow and feed live lambs for eventual slaughter. We note that this approach is consistent with Fish from Canada, 1/ where the industry was defined to include fishermen and fish processors even though the imported product was frozen and fresh fish fillets. It should be noted that this definition of the industry also gives petitioners benefit of the best possible case in their favor, which is appropriate in this preliminary phase.

The Question of a Reasonable Indication of Material Injury by Reason of Allegedly Subsidized Imports

Although information presented to the Commission does indicate a decline in lamb growers' profitability and prices in 1980 and 1981, with an accompanying decline in employment and feed-lot capacity utilization, the record clearly establishes that the allegedly subsidized imports from New Zealand did not contribute to such declines. The quantity of lamb from New Zealand has remained virtually stable since 1978, and actually declined in both 1980 and the period January-August 1981. 2/ Even if 1976 is taken as the base year, New Zealand's imports have increased only slightly (from 27.2 million pounds in 1976 to 28.8 million pounds in 1980). Obviously, an increase in imports from New Zealand of 1.6 million pounds is insignificant in a market which consumed an average of 330 million pounds of lamb meat annually from 1976 to 1980, and has not contributed to the decrease in domestic production, which totaled 50 million pounds over the same period. In addition to the lack of any increase in absolute volume, the market share of imports from New Zealand has remained steady at approximately 9-10 percent. 3/ In fact, it declined somewhat in 1980. Hence, declines in domestic firms' profitability can

1/ Investigation 701-TA-40, USITC Publication 1066(May 1980)
2/ Report, p. A-23.
3/ Report, p. A-30.

hardly be attributed to significant increases in the volume or market share of the allegedly subsidized goods.

A further indication of the lack of any causal link lies in the total absence of any discernible correlation between domestic and imported prices. In fact, while domestic prices have declined irregularly since 1978, prices of the subject imports have steadily increased. Clearly, the recent reductions in domestic prices have not been in response to price suppression or sudden price cuts by importers. It is true that importers generally undersold domestic products during the period under investigation, but the gap has been steadily narrowing. Since 1978, prices of imports from New Zealand have increased about 20 percent on a weighted average basis. For some cuts, the domestic product now undersells the imported article. Thus, the deterioration in domestic prices which has taken place since April 1979 has occurred in the face of rising import prices and declining import volume. Obviously, the problems currently being experienced by domestic growers must be attributed entirely to factors other than imports.

There are several recent developments totally unrelated to imports which explain the decline in growers' profitability in 1980 and early 1981. First, there has been a fairly dramatic increase in lamb slaughter since 1979. 1/ This reversed the trends from 1964-79, during which slaughter was curtailed and prices rose steadily. The result was an apparent glut of lamb meat on the market in November 1980. The President of the National Lamb Feeders Association was quoted in the April 1981 National Wool Grower as saying the following about American lamb supply:

> Instead of being scattered out from October to January, they were all ready for slaughter by November and a lot carrying too much weight. We had created a drastic over-supply of heavy lamb for the present demand. 2/

1/ Report, p. A-18, 33.
2/ National Wood Grower. Volume 71, Number 4, at p. 10.

In the same issue, the Chairman of the Board of Directors of the National Wool Growers Association said:

> The real market break seems to be triggered by, too many lambs marketed at one time in the fall. 1/

The result of this phenomenon has been a decline in growers' return per breeding ewe during a period when their costs were increasing substantially. Commenting on this problem, a recent Task Force on lamb noted that:

> Domestic lamb producers should realize they are competing with the New Zealand product, but there should be no great danger providing they supply the consumer with a lean handy weight product consistently and not vary the supply and the weights drastically throughout the year. 2/

Despite the recent decline in growers' prices for live lamb, retail prices of lamb meat have risen considerably since 1974. This has affected annual per capita consumption of lamb and mutton, which has declined from 2.0 pounds (1975) to 1.4 pounds (1980). At the same time, the price of lamb relative to other red meats has increased considerably since 1974. Pork prices, for example, have only increased 30 percent during this period, while lamb prices have risen approximately 70 percent. 3/ This has made substitute meat products more attractive to consumers and has contributed to declining per capita consumption of lamb. A final complicating factor is the overall decline in annual per capita consumption of all meat products, which has fallen by almost 14 pounds since 1975. 4/ While this decline does not threaten the continued viability of the lamb industry, it does help to explain why domestic growers are beginning to see their prices, sales, and profitability drop.

All of these factors in conjunction with one another have caused a reversal in the fortunes of domestic growers. These growers benefited from

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1/ Id at p. 4.
2/ National Wool Grower, Volume 71, Number 4, at p. 23.
3/ Brief of Respondents, New Zealand Meat Producers Board, p. A-13. (Citing U.S. Department of Agriculture figures).
4/ Id, p. A-8 (Citing U.S. Department of Agriculture figures and AMI Meat Facts 1980).

increasing prices and sharply limited supply from 1964-79. When their costs began to increase dramatically in recent years, they found it impossible to raise their prices because of reduced demand for lamb and the lower prices of substitute meats. Efforts to increase their rate of slaughter since 1979 have not produced higher revenues, because uneven marketing patterns caused a glut on the market and a further reduction in prices.

We believe these problems are transitory in nature. Eventually, more even marketing of domestic products will eliminate rapid price fluctuations and moderate cycles of glut followed by shortage. This would lead to more stable prices, higher per capita consumption (because of greater availability during periods of peak consumption), and higher returns for growers. In connection with this theory, we cannot help but note that some industry sources believe New Zealand lamb has had a beneficial effect on the market by making certain cuts available on a wider geographic and seasonal basis. As one questionnaire respondent noted:

> We have experienced no negative effect. To the the contrary, the N.Z. product has filled gaps in the market when domestic supply was inadequate. This has the positive effect of keeping lamb available to the consumer. A case in point is the N.Z. rack which has kept rack of lamb a popular menu item when domestic racks were so short that the restaurants considered taking them off their menu.

The overwhelming evidence of New Zealand's prudent pricing behavior and stagnant market share, together with the many indications that any injury is attributable to factors totally unrelated to imports, compels us to find that there is no reasonable indication of material injury by reason of the allegedly subsidized imports.

The Question of the Threat of Material Injury

There is no credible evidence of a threat of material injury. The majority views cite the capacity of New Zealand to export lamb meat and the optimistic forecast of Devco that exports to the U.S. could improve by 20 percent per year. This ignores the recent trend in imports from New Zealand, which are declining, as well as the steady expansion of export markets other than the United States for New Zealand lamb. The predictions of a growing U.S. market were obviously wrong, and in any event there have been similar predictions regarding domestic shipments. 1/ Absent any empirical evidence which actually demonstrates a trend, such as a history of predatory pricing, substantial U.S. import inventories, or recent increases in the volume or market share of imports, a finding of possible threat is nothing more than speculation and conjecture. Such a standard for finding a threat has recently been rejected by the Court of International Trade. 2/

Conclusion

The purpose of preliminary investigations is to cut off at an early stage those cases in which there is no reasonable indication that a meritorious final case can be made. The record in the present case is well established and does not support an affirmative finding.

1/ American Sheep Industry Highlights, 1979-80, Prepared by Market Analysis Department, American Sheep Producers Council, Inc.

2/ Alberta Gas Chemicals Inc. v. United States, Docket 79-8-01293, Slip Opinion 81-48 (May 28, 1981).

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On April 23, 1981, a petition was filed with the U.S. Department of Commerce by counsel for the National Wool Growers Association, Inc., Salt Lake City, Utah, alleging that imports of lamb meat from New Zealand are being subsidized within the meaning of section 303 of the Tariff Act of 1930 (19 U.S.C. § 1303). The National Lamb Feeders Association, Inc., Menard, Tex., became a copetitioner on May 12, 1981. As New Zealand was not at that time a "country under the Agreement" within the meaning of section 701(b) of the act (19 U.S.C. § 1671(b)), there was no requirement for the petition to be filed with the Commission pursuant to section 702(b)(2) (19 U.S.C. 1671a(b)(2)) and no requirement for the Commission to conduct a preliminary material injury investigation pursuant to section 703(a) (19 U.S.C 1671b(a)).

On September 17, 1981, however, the United States Trade Representative announced that New Zealand had become a "country under the Agreement" (46 F.R. 46263). Accordingly, Commerce terminated its investigation under section 303, initiated an investigation under section 702, and notified the Commission of its action on September 21, 1981.

Therefore, effective September 21, 1981, the Commission, pursuant to section 703(a) of the act (19 U.S.C. § 1671b(a)), instituted preliminary countervailing duty investigation No. 701-TA-80 (Preliminary) to determine whether there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from New Zealand of lamb meat, provided for in item 106.30 of the Tariff Schedules of the United States (TSUS), upon which bounties or grants are alleged to be paid. The statute directs that the Commission make its determination within 45 days of its receipt of the petition, or by November 5, 1981. Notice of the institution of the Commission's investigation and of a public conference to be held in connection therewith was duly given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and by publishing the notice in the Federal Register of September 30, 1981. (46 F.R. 47898). 1/ The public conference was held in Washington, D.C., on October 16, 1981. The Commission's vote in the investigation was held on October 29, 1981.

Nature and Extent of the Alleged Bounties or Grants

The petition filed with the Commerce Department contains allegations that the Government of New Zealand provides its sheep growers and lamb meat producers/exporters with numerous incentive programs which constitute bounties

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1/ A copy of the Commission's notice of the investigation and conference and a list of witnesses appearing at the conference are presented in app. A. Copies of the Commerce Department's notices of investigation are presented in app. B.

or grants under the countervailing duty law. These incentive programs are alleged by petitioner to constitute bounties or grants amounting to approximately 33 percent of the ad valorem value of the imports. Chief among these incentive programs are two tax incentive programs related specifically to export performance, which amount to a bounty or grant of approximately 10 percent ad valorem, according to petitioner.

Description and Uses

Lamb meat is derived from an immature sheep (or ovine), usually under 14 months of age, that has not cut its first pair of permanent incisor teeth. It is light red in color, compared with the dark red color of the meat of older sheep (mutton). White or yellowish fat covers much of the lamb carcass, and some fat is dispersed throughout the meat. The various cuts of meat that are obtained from a lamb carcass are shown in figure 1.

The imported product

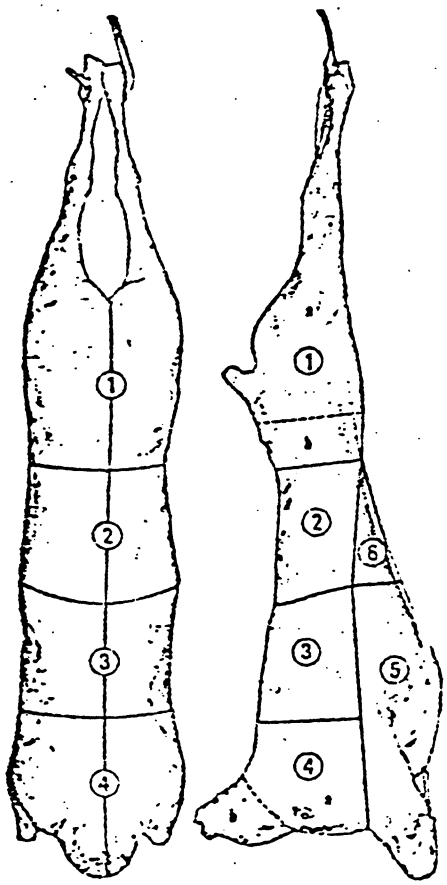
Nearly all U.S. imports of lamb meat from New Zealand are frozen to facilitate shipping and to extend the shelf life of the product. Frozen lamb meat can be stored indefinitely, although most is purchased by the retail consumer within 4 months of the time the lamb is slaughtered. Frozen lamb meat from New Zealand does not have an expiration date stamped on the package.

Lamb meat from New Zealand is inspected and graded by New Zealand meat graders and not by the U.S. Department of Agriculture (USDA). The New Zealand grading system is more complex than that used by the USDA; it has 11 different grades, although only the top 5 grades are exported to the United States. USDA officials report that these five grades are approximately comparable to the USDA Choice grade. All New Zealand lamb is grass fed (compared with the common practice of fattening with grain feeds in the United States), which is thought by some consumers to give the New Zealand meat a stronger flavor and aroma.

Most of the imports are wholesale (or primal) cuts, i.e. legs, loins, racks, and shoulders, although retail cuts and carcasses are sometimes imported. Some of the imported primal cuts are reduced to retail cuts by grocery store butchers for sale in the retail outlets.

New Zealand lamb carcasses typically weigh about 34 pounds, considerably less than U.S. lamb carcasses, because New Zealand lambs are slaughtered at a somewhat younger age than U.S. lambs and because many New Zealand breeds of sheep are smaller than U.S. breeds. To be authorized for shipment to the United States, the lamb must be slaughtered between October 23 and May 31. Imports are labeled "New Zealand Spring Lamb" in both English and French because some of the meat is sold in Canada, where the French labeling is required.

Figure 1.--Lamb meat: Types of cuts



LAMB CHART

Numerals in circles ○ refer to wholesale cuts. Letters refer to retail cuts.

Wholesale Cuts

①② and ③ HINDSADDLE
- ① Leg
- ② Loin
- ③ Flank

②① and ③ FORESADDLE
- ② Hotel Rack
- ① Chuck
- ③ Breast

Retail Cuts

① LEG
- a. Roast
- b. Chops or roast

② LOIN
- Loin and kidney chops

③ HOTEL RACK
- Rib chops or roast

① CHUCK
- a. Roast or chops
- b. Neck slices or stew

③ BREAST
- Stew

④ FLANK
- Stew

Yields of Wholesale Cuts

(Percentage of Carcass Weight)

①② and ③ Hindsaddle	50.0%	②① and ③ Foresaddle	50.0%
① Leg	33.0%	② Hotel rack	11.0%
② Loin and ④ Flank	17.0%	① Chuck	25.0%
		③ Breast, inc. shank	14.0%

Source: U.S. Department of Agriculture, Agricultural Marketing Service.

New Zealand lamb meat is sold through grocery stores and through hotel, restaurant, and institutional (HRI) outlets. 1/ In the HRI outlets, the lamb is generally not identified as imported.

Domestically produced lamb meat

U.S.-produced lamb meat is sold fresh or chilled, rather than frozen. In the United States, there is little incentive to freeze lamb since it is generally sold to the retail consumer within 1 week, and almost always within 2 weeks, from the time the lamb is slaughtered. Most lamb meat in grocery stores is packaged with stamped expiration dates. U.S. lamb carcasses are larger than New Zealand carcasses, usually ranging in weight from 35 to 65 pounds.

The official USDA grades of lamb are Prime, Choice, Good, Utility, and Cull. Most purchasers prefer cuts from carcasses that are Choice, and most of the lamb carcasses destined for table use are so graded. Expenses associated with feeding lambs for the Prime grade are generally not recoverable in the marketplace. As with New Zealand lamb meat, the U.S. product is sold in grocery stores and through HRI outlets. Much of the lamb meat sold in grocery stores is in retail-sized cuts rather than primal cuts.

U.S. Tariff Treatment

U.S. imports of fresh, chilled, or frozen lamb meat are classifiable under item 106.30 of the TSUS. U.S. imports of fresh, chilled, or frozen lamb meat from New Zealand, and all other countries receiving the column 1 rate of duty, 2/ are dutiable at 0.5 cent per pound (0.5 percent ad valorem equivalent in 1980), and that rate has been in effect since January 1, 1980. From January 1, 1972, to January 1, 1980, the rate had been 1.7 cents per pound. The current rate is not scheduled for reduction, and imports are not eligible for duty-free entry under the GSP nor for reduced rates if entered from LDDC's.

1/ At the Commission's conference on the investigation, import interests reported that about 30 percent of the imports were sold to institutions.

2/ The rates of duty in rate of duty column numbered 1 are most-favored nation rates and are applicable to imported products from all countries except those Communist countries and areas enumerated in general headnote 3(f) of the TSUS. However, such rates would not apply to products of developing countries which are granted preferential tariff treatment under the Generalized System of Preferences (GSP) or under the "Least Developed Developing Country" (LDDC) rate of duty column. The GSP, under title V of the Trade Act of 1974, provides duty-free treatment for specified eligible articles imported directly from designated beneficiary developing countries. GSP, implemented by Executive Order 11888 of Nov. 24, 1975, applies to merchandise imported on or after Jan. 1, 1976, and is scheduled to remain in effect until Jan. 4, 1985, unless modified by the President or terminated. The LDDC rates of duty are preferential rates reflecting the full U.S. Multilateral Trade Negotiations concession rate without staging for a particular item and are applicable to products of the LDDC's designated in general headnote 3(d) of the TSUS which are not granted duty-free treatment under the GSP. If no rate of duty is provided in the LDDC column for a particular item, the rate of duty provided in column 1 applies.

Health and Sanitary Regulations of the USDA and Other U.S. Trade Policy Factors

The health and sanitary regulations administered by the USDA operate to restrict or prohibit imports of fresh, chilled, or frozen lamb meat from certain areas of the world. For example, sources of imports of lamb meat are limited to those countries that have been declared free of rinderpest and foot-and-mouth diseases 1/ by the U.S. Secretary of Agriculture. The general effect of such prohibitions has been to allow imports of fresh, chilled, or frozen lamb meat only from Australia, New Zealand, North America, and certain areas of Europe. Under the Federal Meat Inspection Act, only those countries and those plants which have meat inspection systems with standards at least equal to those of the USDA program are permitted to ship meat to the United States. U.S. imports of lamb meat are not currently and have not been subject to quantitative limitations.

U.S. Producers

Growers

U.S. sheep growers may be divided into two categories: (1) sheep raisers (i.e., those who maintain flocks of sheep for the production of lambs), and (2) feeders (those who maintain feedlots where lambs are fed on grain or other concentrates until they reach slaughter weight). Some growers engage in both activities, and not all lambs are placed in feedlots. Some go to slaughter directly from pasture, where they may or may not have been provided with grains to supplement their diets of forage and milk from their mothers. Lambs are the only common farm animals that can be grown to the Choice grade without supplemental feed, and when pastures are good, they are frequently so handled.

The number of sheep-raising operations 2/ in the United States has generally declined in recent years (table 1). The long-term decline is believed to be the result of unacceptable levels of profitability caused in part by such factors as labor shortages, feed costs, and extensive losses of sheep and lambs to predators (especially dogs in the East and coyotes in the West).

In 1980, 53,100 U.S. operations with sheep (46 percent of the U.S. total) were located in the Corn Belt. 3/ However, these operations averaged only 41 animals each and accounted for only 17 percent (2.2 million head) of the total

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1/ Rinderpest and foot-and-mouth diseases are highly contagious, infectious diseases which can afflict cloven-footed animals (cattle, sheep, hogs, deer, and so forth). Because the diseases are so easily transmitted and debilitating, they are a threat to the U.S. livestock industry.

2/ An operation is any place having one or more sheep on hand at any time during the year. Although detailed statistics are not available, it appears that most operations with sheep are sheep raisers; growers report there are relatively few feeders.

3/ Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin.

Table 1.--Operations with sheep, by regions, 1976-80

Region	1976	1977	1978	1979	1980
Corn Belt	60,200	55,700	55,100	54,100	53,100
Western States	41,610	41,420	41,330	42,680	43,300
Other	20,650	20,380	19,220	19,290	19,130
Total	122,460	117,500	115,650	116,070	115,530

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

U.S. sheep population of 12.9 million head as of January 1, 1981 (table 2). More lambs in this region (25 percent of the total in recent years) are on feed than in other regions, however, reflecting, in part, the availability of feed (table 3). In the Corn Belt, sheep are most commonly kept as components of diversified farming operations, or kept by part-time farmers. Sheep are frequently kept on land not suitable for grain raising or other farming activities.

Table 2.--U.S. sheep and lamb population, by regions, as of Jan. 1 of 1977-81

(In thousands)

Region	Jan. 1--				
	1977	1978	1979	1980	1981
Western States	9,917	9,690	9,786	10,019	10,175
Corn Belt	2,171	2,106	2,014	2,098	2,200
Other	634	625	565	570	567
Total	12,722	12,421	12,365	12,687	12,942

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

The Western States 1/ accounted for 43,300 U.S. sheep operations (37 percent of the total) in 1980. These operations accounted for 10.2 million sheep (79 percent of the U.S. total), averaging 235 animals each. In the Western States, sheep are sometimes the primary or only source of income for the operator, although sheep are also frequently part of diversified farming operations. On the Edwards Plateau of Texas, for example, cattle, sheep, and goats may be kept on the same pasture because cattle will eat grass, sheep will eat forbs and weeds, and goats will eat leaves and browse. In many areas of the West, the only suitable agricultural crop is forage, and the only practical use for the forage is as a feed for ruminant animals, such as sheep.

1/ Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, and Wyoming.

Table 3.--Sheep and lambs in feedlots, by regions, as of Jan. 1 of 1977-81

(In thousands)

Region	Jan. 1--				
	1977	1978	1979	1980	1981
Western States	1,308	1,197	1,142	1,202	1,210
Corn Belt	414	418	388	420	414
Other	9	8	0	0	0
Total	1,731	1,623	1,530	1,622	1,624

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

Almost all of the remaining sheep operations are located in the Northeastern United States. Because of climate, sheep are less frequently raised in the Southeastern United States (see fig. 2).

Notwithstanding the general decline in the number of sheep operations (table 1), the total U.S. sheep population increased by 5 percent from January 1, 1979 (the low point), to January 1, 1981, indicating that economic returns from sheep operations had improved sufficiently to entice some growers to expand their operations. Increases are evident in both sheep and lambs in feedlots and in stock sheep (table 4). The 1981 U.S. lamb crop is projected by the USDA to be 8.8 million head, up 8 percent from the 1980 level.

Table 4.--U.S. sheep and lamb population, by types, as of Jan. 1 of 1977-81

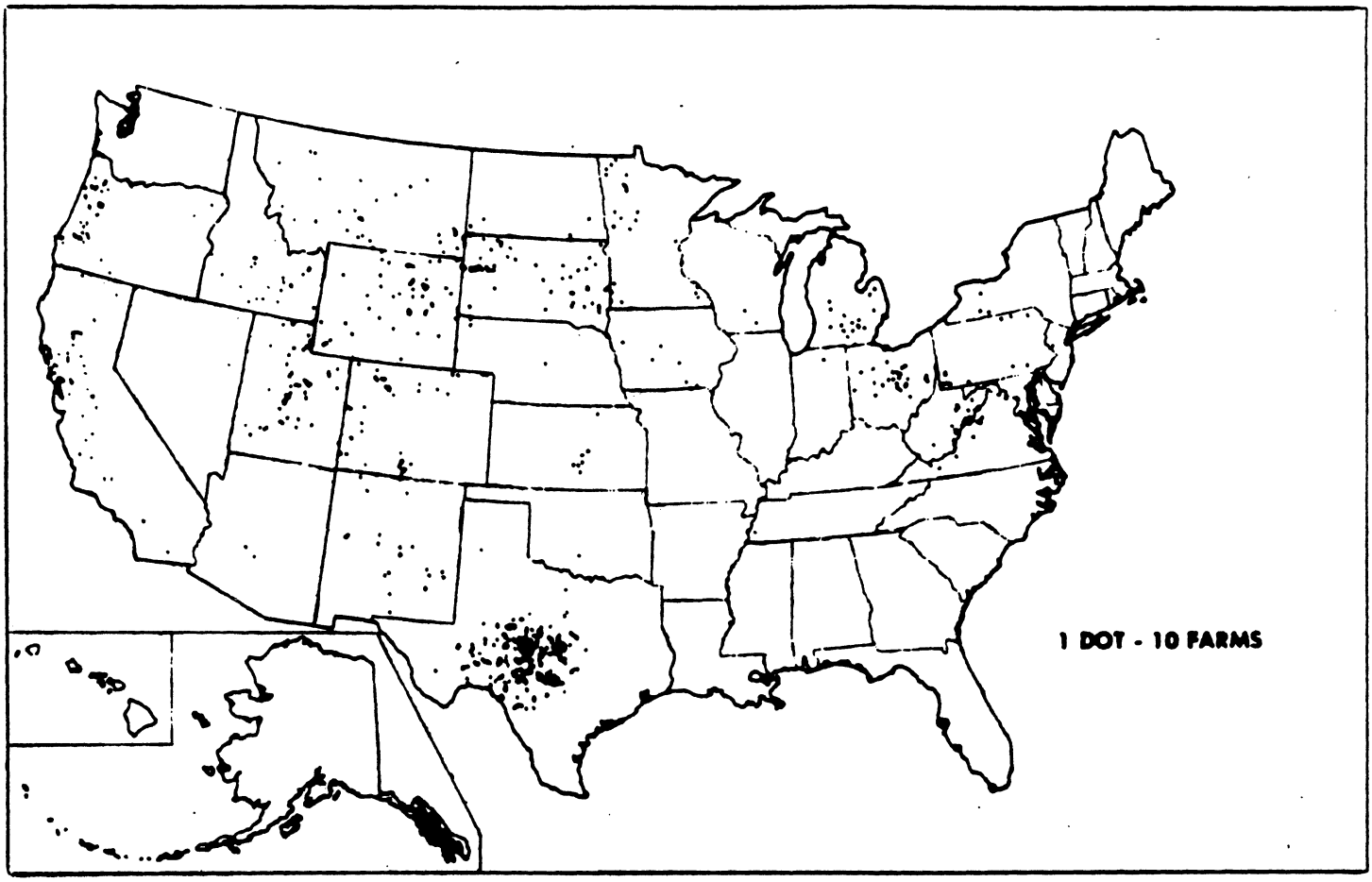
(In thousands)

Class	Jan. 1--				
	1977	1978	1979	1980	1981
All sheep and lambs	12,722	12,421	12,365	12,687	12,942
In feedlots	1,731	1,623	1,579	1,622	1,624
On farms and ranches	10,991	10,798	10,786	11,065	11,318
Less than 1 year old:					
Ewes	1,401	1,508	1,684	1,807	1,791
Wethers 1/ and rams	379	328	356	368	357
1 year old and older:					
Ewes	8,850	8,588	8,366	8,524	8,798
Wethers and rams	361	374	380	366	371

1/ Castrated male sheep.

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

Figure 2.--U.S. sheep and goat operations, 1974.



Source: 1974 Census of Agriculture, U.S. Department of Commerce.

Productivity in the live sheep industry, as measured in terms of the annual lamb crop per 100 ewes, has increased irregularly in recent years, rising from 95 in 1976 to 99 in 1980, or by 4 percent. Wool production per sheep, however, has decreased slightly, from 8.11 pounds per animal in 1976 to 8.02 pounds in 1979, or by 1 percent. Both trends result in part from the expanded use of the Suffolk breed of sheep. Suffolks frequently yield twin lambs, but light fleeces.

The production of sheep begins when the ewe is bred. Lambs, which are born after a 5-month gestation period, normally grow to a slaughter weight of 100 to 125 pounds in about 8 months. Spring lambs may be sent directly from pasture to slaughter. 1/ Alternatively, at about 6 months of age and about 55 to 90 pounds in weight, lambs, generally referred to as feeders, may be shipped to feedlots for about 2 to 3 months of intensive feeding and finishing on grain (primarily corn) prior to slaughter. When ready for slaughter, they are called fed lambs, slaughter lambs, or fat lambs.

Officials of the National Lamb Feeders Association report that there are probably only about 100 large-volume lamb feedlots in the United States, although there are many small-volume feedlots. Feedlot operators may feed lambs they own or may feed lambs for other people on a consignment or fee-for-service basis. In 1979, the latest year for which national data are available, nine meatpackers reported feeding a total of 656,500 sheep and lambs, equal to 14.6 percent of the total sheep and lamb slaughter in that year.

Table 5 shows that the number of lambs on feed in seven leading States as of March 1, 1981, the most recent date for which data are available, was 664,000, or 11 percent more than on March 1, 1980. Prior to 1981, the number on feed had generally declined. The number of lambs placed on feed (moved into feedlots) during January-February 1981 was 349,000, up 22 percent from the year earlier level of 287,000. Although the increase probably reflects greater availability of lambs and the decision on the part of sheep raisers to place lambs on feed rather than retain them to build up flocks, it also indicates that lamb feeders were expanding operations. The 1980 lamb crop, from which lambs would most likely be drawn for placement on feed, was up 4 percent from the 1979 level. Approximately half of the lambs born are males, and since only one male is needed for 30 to 40 ewes, and good males are retained several years, most male lambs are slaughtered for meat.

1/ At the Commission's conference on the investigation, domestic interests reported that in years when pastures were good, 30 to 40 precent of the U.S. lamb crop would be sent directly to slaugher from pasture, without going through feedlots.

Table 5.--Sheep and lambs: Number on feed in 7 leading States, January-February of 1977-81, and total on feed as of Mar. 1 of 1977-81

(In thousands)

Period	Placed on feed during January and February	Marketed during January and February	Total on feed as of Mar. 1
January-February:			
1977	403	703	640
1978	302	673	659
1979	306	712	604
1980	287	683	597
1981	349	714	664

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

Table 6 shows that U.S. lamb slaughter during January-August 1981 was higher in every month but May than that in the corresponding period of 1980. The total slaughter during January-August 1981 was 3,572,500 head, 6 percent above that in January-August 1980. With the 1981 lamb crop being 8 percent larger than the 1980 crop, and the 1979 lamb crop being 3 percent larger than the 1978 crop, there does not appear to be an excessive distress slaughter of lambs; however, inasmuch as table 4 shows there were fewer lambs (identified as "less than 1 year old") on hand as of January 1, 1981, and slaughter has been up during 1981, there does appear to be some selloff by sheep raisers.

Processors

The number of U.S. lamb-slaughtering plants in the United States, as reported by the USDA, has fluctuated but generally declined in recent years, as shown in the following tabulation:

Year	Quantity
1976	878
1977	884
1978	880
1979	835
1980	849

Although there are many plants that slaughter lambs in the United States, the industry is concentrated. In 1980, for example, 24 plants, or 3 percent of the total, slaughtered 10,000 or more animals per year and accounted for 97 percent of total slaughter. Many of these large plants only process lamb and reportedly would need extensive and costly modifications to do other species. Although a few plants account for the bulk of the slaughter, 73 percent slaughter fewer than 100 head annually. Many of these are located in the East

Table 6.--Lamb: U.S. slaughter, 1/ by months, January 1976-August 1981

(In thousands)

Period	1976	1977	1978	1979	1980	1981
January	579.8	489.7	419.2	389.7	439.2	485.6
February	503.6	446.8	382.4	349.2	411.0	420.0
March	563.2	564.4	471.3	422.0	460.9	478.9
April	546.7	522.3	413.0	415.5	452.5	503.3
May	403.7	438.4	419.5	393.0	433.5	398.8
June	472.1	504.6	411.0	349.8	371.5	411.5
July	503.4	432.6	389.6	370.4	397.6	418.8
August	542.2	519.2	422.1	400.5	405.5	455.6
September	607.4	537.2	425.5	395.4	450.1	2/
October	530.9	496.1	447.2	438.8	489.8	2/
November	501.8	464.2	406.1	376.2	401.1	2/
December	526.3	432.6	388.9	378.3	455.0	2/
Total	6,281.1	5,848.1	4,995.7	4,673.8	5,167.7	2/

1/ Includes yearlings.
2/ Not available.

Source: Estimated on the basis of official statistics of the U.S. Department of Agriculture.

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

and slaughter lambs seasonally or occasionally. The top eight firms in the industry, some of which have several plants, account for more than * * * percent of the total U.S. lamb slaughter. Some of these firms are large meatpackers that process other species, and some process lambs only. At least two large lamb-packing firms are owned in part by lamb feeders.

California and Texas each accounted for about 20 percent of the total U.S. lamb slaughter in most recent years, and Colorado is also believed to be a major slaughtering State (see fig. 3.). Most packers buy lambs from feeders or sheep raisers, but custom slaughter, for fees, does occur.

Lamb slaughter tends to be somewhat seasonal, with production being lowest during June-September; output increases in October of most years as lambs come off summer pasture. By early summer, lambs are usually in short supply, and packers report shortages and competition with other packers for lambs for slaughter. Many plants close down temporarily or work reduced shifts. As shown in table 7, U.S. production of lamb meat declined steadily until 1980, reflecting an overall decline in the U.S. lamb population.

U.S. Importer

Under authority of the Meat Export Control Act of 1921-1922, New Zealand authorizes only one company, the Meat Export Development Co. (DEVCO), a subsidiary of the New Zealand Meat Producers Board, to export meat to the United States. Exporting meat to North America is its sole business and the reason for which it was founded. The New Zealand Lamb Co., headquartered in White Plains, N.Y., is DEVCO's U.S. subsidiary which imports lamb and sells it to wholesalers and food brokers (generally major food distributors). The company is a participant, contributor, and cofounder of the Lamb Promotion Coordination Committee, a committee formed jointly by U.S., Australian, and New Zealand interests to promote lamb consumption in the United States.

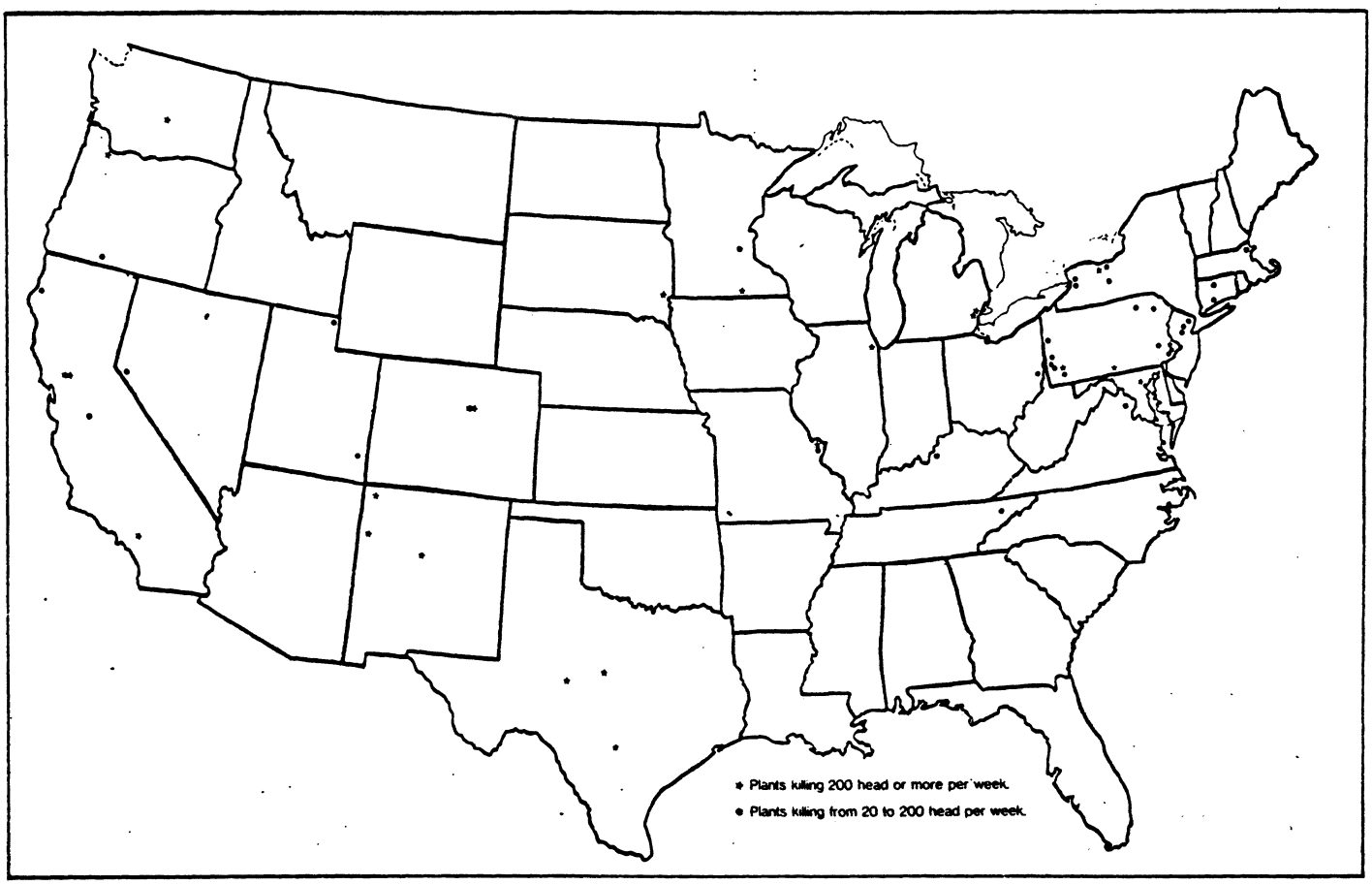
Foreign Producers

New Zealand

New Zealand's principal agricultural products and principal agricultural exports to the world and to the United States are livestock products (beef, milk products, lamb, and wool). New Zealand has nearly ideal climatic and grazing conditions, and much of the land is too steep for row crops. U.S. imports of all agricultural products from New Zealand averaged about $620 million annually in 1979 and 1980. U.S. exports of all agricultural products to New Zealand averaged only about $36 million in 1979 and 1980. The principal U.S. agricultural exports to New Zealand are fruits and nuts, tobacco, and vegetable fats and oils.

The New Zealand sheep population as of January 1, 1981, was estimated to be 68 million head compared with the U.S. population of 13 million (table 8). Separate statistics concerning lamb meat production in New Zealand are not available, but available statistics show New Zealand production of lamb meat, goat meat, and mutton at 1.3 billion pounds, compared with a comparable U.S. production figure of 0.3 billion pounds (table 9). Both sheep population and sheep meat production in New Zealand have been increasing in recent years.

Figure 3.--Federally inspected sheep and lamb slaughter plants, 1980.



Source: Livestock Slaughter, July 1981, U.S. Depratment of Agriculture.

Table 7.--Lamb meat: Estimated U.S. production, 1/ by months, January 1976-August 1981

(In thousand of pounds)

Period	1976	1977	1978	1979	1980	1981
January	32,468.8	27,912.9	23,475.2	22,324.2	25,912.8	28,650.4
February	28,201.6	25,914.4	21,796.8	20,730.0	24,249.0	24,780.0
March	31,539.2	32,735.2	26,864.1	25,742.0	27,193.1	28,255.1
April	29,521.8	29,248.8	23,541.0	24,099.0	26,245.0	27,681.5
May	20,992.4	22,796.8	23,492.0	22,794.0	25,143.0	21,535.2
June	24,077.1	25,734.6	22,605.0	19,588.8	20,061.0	21,809.5
July	26,176.8	22,062.6	21,817.6	20,742.4	20,675.2	22,196.4
August	28,736.1	26,479.2	23,215.5	22,027.5	21,127.6	25,512.6
September	32,799.6	27,397.2	23,828.0	21,747.0	23,744.0	2/
October	29,199.5	26,789.4	25,937.6	25,011.6	26,994.0	2/
November	28,100.8	25,995.2	23,553.8	21,443.4	22,817.1	2/
December	29,472.8	23,793.0	22,556.2	22,319.7	26,945.3	2/
Total	341,287	316,859	282,683	268,570	291,107	2/

1/ Includes yearlings.
2/ Not available.

Source: Estimated on the basis of official statistics of the U.S. Department of Agriculture.

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

Table 8.--Sheep populations, by specified areas or countries and by years, 1977-81

(In thousands)

Country or area	1977	1978	1979	1980	1981 1/
U.S.S.R	139,834	140,900	142,600	143,599	141,500
Australia	135,360	131,445	134,222	135,985	131,200
New Zealand	59,105	62,163	63,523	66,000	68,000
EEC	50,122	53,323	54,891	55,049	54,949
United Kingdom	19,880	20,504	21,651	21,658	22,000
United States	12,722	12,421	12,365	12,687	12,942
Canada	408	383	430	481	538
All other	278,763	280,396	285,063	288,083	290,199
Total	676,314	681,031	693,094	701,884	699,328

1/ Preliminary.

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

Note.--Various dates of enumeration are used by the countries reporting animal populations. This table classifies this data as close to January 1 as possible.

Table 9.--Sheep and goat meat: Production, by specified countries or areas, 1977-81

(In thousands of pounds) 1/

Country or area	1977	1978	1979	1980 2/	1981 3/
U.S.S.R. 4/	1,970,912.4	2,030,436.6	1,918,002.0	1,873,910.0	1,873,910.0
Total EEC	1,386,032.0	1,446,658.5	1,478,404.8	1,587,973.4	1,585,327.9
United Kingdom	91,625.0	502,648.8	500,444.2	557,763	562,173.0
New Zealand	1,099,213.6	1,107,370.6	1,134,046.2	1,118,004.2	1,256.622.0
Australia	1,185,413.4	1,084,883.7	1,173,067.7	1,161,603.7	987,660.8
United States 5/	350,972.3	309,084.9	292,991.3	320,989.8	324,958.0
Canada	11,904.8	9,479.8	9,259.3	10,582.1	11,243.5
All other	3,655,888.2	3,663,365.8	3,656,549.6	3,693,535.3	3,654,565.4
Total	9,660,336.7	9,651,279.9	9,662,320.9	9,766,598.5	9,694,287.6

1/ Carcass-weight basis.
2/ Preliminary.
3/ Forecast.
4/ Slaughter weight basis.
5/ Lamb and mutton only.

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

Although data are not available, it appears that New Zealand enjoys a comparative cost advantage in the production of lamb. The climate is mild, and grazing in parts of New Zealand is available nearly year round. Sheep there generally require no shelter and little or no supplemental feed (grain). New Zealand sheep raisers and meat processors are generally regarded as highly skillful. Many of New Zealand's sheep are dual-purpose breeds, producing both high-quality wool and meat. The most common breed is the Romney, a breed not commonly kept in the United States.

New Zealand imports of lamb are negligible. Table 10 shows that New Zealand is the world's largest exporter of sheep meat, exporting more than twice as much as the second largest exporter, Australia.

Table 10.--Sheep meat: Exports, by selected countries or areas, 1977-81

(In thousands of pounds)

Country or area	1977	1978	1979	1980 1/	1981 2/
New Zealand	895,729	833,780	960,103	1,025,139	1,036,162
Australia	598,549	539,681	472,446	590,833	485,012
Total EEC	171,297	177,029	171,077	168,872	157,188
United Kingdom	99,207	92,593	90,389	77,161	66,138
United States	4,630	3,086	1,102	1,102	1,102

1/ Preliminary.
2/ Forecast.

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

Table 11 shows that the United Kingdom has for many years been the major New Zealand market for lamb, although the Middle East (especially Iran) has recently emerged as a major customer. In May 1980, the European Economic Community (EEC) Common Agricultural Policy for sheep meat was adopted, which, among things, provides for a Voluntary Restraint Agreement (VRA) for imports of lamb meat from New Zealand beginning October 20, 1980. New Zealand agreed to a voluntary restraint level of 234,000 metric tons for its exports to the EEC. The VRA also provided that when Greece acceeded to the EEC on January 1, 1981, New Zealand's VRA would be increased by 11,500 tons to a total of 245,500 tons. The VRA level of 245,500 metric tons is equal to about what New Zealand exported to the EEC and Greece, combined in 1979, but is more than the 202,305 tons exported in 1980. The agreement is scheduled to be renegotiated in March of 1984.

Table 11.--Lamb meat: New Zealand exports, by years ending Sept. 30 of 1976-80

(In thousands of pounds) 1/

Market	1976	1977	1978	1979	1980
Total EEC	478,398	488,109	441,842	492,644	426,528
United Kingdom	449,891	463,114	396,663	452,776	398,285
Total Middle East	75,666	87,470	72,157	45,185	214,089
Iran	42,787	60,371	59,844	8,086	142,488
United States	27,403	16,603	28,060	32,101	25,044
Canada	19,065	15,664	20,093	18,953	21,993
All other	94,496	78,616	106,954	116,182	84,401
Total	695,028	686,462	669,105	705,066	772,055

1/ These statistics are on a fiscal year basis and are product-weight figures. Hence, they cannot be compared directly with other statistics in this report.

Source: Compiled from official statistics of the New Zealand Meat Producers Board.

Australia

Australia's principal agricultural products and agricultural exports are beef, wheat, wool, milk, sugar, and lamb. Australia's principal agricultural exports to the United States are beef, wool, and sugar. Australia has vast areas of grazing land, but much of it is dry and subject to chronic droughts. U.S. imports of agricultural products from Australia averaged about $1.1 billion annually in 1979 and 1980; U.S. exports of agricultural products to Australia averaged about $105 million annually during the same period. The principal U.S. agricultural exports to Australia are tobacco and vegetable fats and oils.

The Australian sheep population as of January 1, 1981, was estimated at 131 million, second only to that of the U.S.S.R. The population has historically fluctuated in response to climatic conditions, i.e., chronic Australian droughts have resulted in declines in sheep numbers. Lamb meat (including mutton) production in Australia has been low in relation to sheep populations because many of the sheep in Australia are of the Merino breed and are kept primarily or exclusively for the production of wool.

The Question of Material Injury

Growers of Live Lamb

U.S. production, domestic shipments, exports, and imports.--U.S. production of live lambs, referred to as the lamb crop by USDA and the industry, decreased slightly from 1978 to 1979, but increased in 1980. Lamb production is projected to increase again in 1981, to 8.8 million head, which would be an increase of 10 percent from the number in 1978. These data on live lamb production, derived from official statistics of the USDA, are given in the tabulation below:

Year	Lamb crop (In thousands)
1978	8,020
1979	7,974
1980	8,246
1981	8,800

Data on domestic shipments of live lambs intended for use as lamb meat correspond with data on live-lamb slaughter maintained by USDA. The pattern of estimated 1/ lamb slaughter followed a similar pattern to that of production of live lambs, decreasing from 1978 to 1979, and then increasing noticeably in 1980. Slaughter during January-July 1981 is running ahead of that for the same period in 1980 by 5 percent.

Period	Estimated U.S. lamb slaughter (In thousands)
1978	4,996
1979	4,670
1980	5,168
January-July--	
1980	2,966
1981	3,117

1/ The data for total lamb production and slaughter are derived from statistics of the USDA on total lamb and mutton production and slaughter, and deflated by the share of federally inspected lambs in the slaughter of all federally inspected lamb and mutton, for each month, January 1977-July 1981.

An industry publication stated that the domestic sheep industry chose to keep the slaughter low through 1980 in order to rebuild breeding stock for a planned expansion in lamb and wool production in the mid-1980's. 1/

U.S. exports of live sheep decreased from 142,000 head in 1978 to 110,000 head in 1980, but are projected to increase substantially in 1981. The largest U.S. export markets for live lambs are Mexico and Canada. Imports of live lambs, chiefly from Canada, accounted for only 0.1 percent of the live lamb stock on U.S. farms during 1978-80.

Data on U.S. production, shipments, exports, imports, and stocks of live sheep and lambs on U.S. farms during 1978-81 are summarized in table 12.

Table 12.--Sheep and lambs: Number on U.S. farms as of Jan. 1 of 1978-81, lamb crop, imports for consumption, exports, slaughter, and deaths, 1/ 1978-81, and number on U.S. farms as of Dec. 31 of 1978-81

(In thousands)

Year	Number on farms, Jan. 1.	Lamb crop	Imports	Exports	Slaughter	Deaths	Number on farms Dec. 31
1978	12,421	8,020	11	142	5,543	2,402	12,365
1979	12,365	7,974	9	125	5,189	2,347	12,687
1980	12,687	8,246	21	110	5,745	2,157	12,942
1981	12,942	2/ 8,800	3/	3/	3/	3/	3/

1/ The death rate for sheep is high in comparison with other range animals because as small, relatively slow animals, sheep are easy prey for coyotes, dogs, and other animals. Also, the yield from each sheep is relatively small, so that it usually is not economically feasible to transport ill or injured sheep from the range to the market.

2/ Estimate of USDA.

3/ Not available.

Source: Imports and exports compiled from official statistics of the U.S. Department of Commerce; other data compiled from official statistics of the U.S. Department of Agriculture.

1/ American Sheep Producers Council Inc.; American Sheep Industry Highlights, 1979-1980, p. 3.

Number of operations and financial experience of operations with live sheep.--The number of operations with sheep declined by 6 percent from 1976 to 1978, but remained stable from 1978 to 1980, as shown in the following tabulation:

Year	Operations with sheep
1976	122,460
1977	117,500
1978	115,650
1979	116,070
1980	115,530

The costs and returns to sheep operations varied widely according to region and size of the operation. Nonetheless, USDA composite estimates for costs of producing sheep in 1980 and 1981 allow the conclusion by that Government agency that "while such returns (to sheep operations) represent a substantial deterioration from 1977-79, when returns approached or exceeded all costs except for land, they are sufficient to assure shortrun financial stability for the industry." 1/ Data on average shortrun costs and returns of sheep-producing operations are given in table 13 and show that although gross revenues to sheep operators increased by 13 percent from 1978 to 1981, total nonland costs increased 43 percent. Consequently, the average shortrun return per breeding ewe fell steadily, from $17.74 per ewe in 1978 to $7.69 in 1981, or by 57 percent.

Lamb Meat Packers and Processors

U.S. production and capacity utilization.--U.S. production of lamb meat decreased from 341.3 million pounds in 1976 to 268.6 million pounds in 1979, before recovering somewhat in 1980 to 291.1 million pounds, which still represented a 15-percent decrease from production in 1976. Production in January-August of 1981 is ahead of that for the corresponding period of 1980 by 5 percent. Data on U.S. production of lamb meat during 1976-80 and January-August 1981 are given in the tabulation on page A-22:

1/ Despite the decline in the profitability of the industry, producers of live sheep received higher returns than most elements of the red-meat-producing sector during 1979-81. Total nonland returns to hog producers were negative in each of those years, and cattle feedlot operators experienced negative returns in 1980 and break-even results in 1981. Only producers of feeder cattle were profitable in 1979, 1980, and 1981, but their returns decreased by 69 percent during the period compared with the 44-percent decline experienced by lamb operators. See USDA Economics and Statistics Service, Costs of Producing Livestock in the United States-Final 1979, Preliminary 1980, and Projections for 1981, p. 40.

Table 13.--Average U.S. shortrun costs and returns 1/ of producing sheep, 1978-81

(Per breeding ewe)

Item	1978		1979		1980 2/		1981 3/	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Gross returns	$60.08	-	$62.79	-	$62.74	-	$68.06	-
Direct costs:								
Purchased feeders	.73	-	.76	-	.70	-	.70	-
Feed	15.38	-	16.42	-	17.18	-	20.10	-
Hired labor	1.60	-	1.75	-	1.89	-	2.10	-
Other production items	7.26	-	9.15	-	10.73	-	12.25	-
Interest on operating capital	1.84	-	2.89	-	3.80	-	3.41	-
General farm overhead	1.24	-	1.38	-	1.58	-	1.72	-
Total direct costs	28.05	-	32.35	-	35.88	-	40.28	
Other costs:								
Operation and family labor	-	$6.37	-	$6.96	-	$7.52	-	$8.34
Management	-	3.54	-	4.18	-	4.60	-	4.91
Land taxes	1.49	-	1.80	-	2.23	-	2.69	-
Ownership costs	2.89	-	3.77	-	3.70	-	4.15	-
Total direct and other costs	32.43	9.91	37.92	11.14	41.81	12.12	47.12	13.25
Total, non-land costs	42.34		49.06		53.93		60.37	
Returns above--								
Cash costs	27.65		24.87		20.93		20.94	
Total non-land costs	17.74		13.73		8.81		7.69	

1/ Shortrun costs, as estimated by USDA, do not include allowances for fixed costs of replacement reserves and interest on invested capital for machinery and equipment, buildings, and facilities, and other long-run costs associated with borrowing capital. Such costs are usually not considered by the Commission in the examination of the injury issue. Inclusion of such data, as estimated by USDA, results in sheep operations experiencing a net profit of $3.74 per breeding ewe in 1978, and net losses of $3.70 in 1979, $10.47 in 1980, and $10.37 in 1981.

2/ Preliminary.

3/ Projected.

Source: For 1979, 1980, and 1981 data: USDA Economics and Statistics Service, Costs of Producing Livestock in the United States--Final 1979, Preliminary 1980, and Projection for 1981, p. 40; for 1978 data, USDA Economics and Statistics Service, Costs of Producing Sheep in the United States-Final 1977 and 1978, and Projections for 1980; p. 13.

Period	Production (1,000 pounds)
1976	341,287
1977	316,859
1978	282,683
1979	268,570
1980	291,107
January-August--	
1980	190,607
1981	200,419

Because of insufficient questionnaire responses from U.S. lamb packers and processors, the Commission was unable to examine capacity and capacity utilization data for the domestic industry. Also, such data are not kept by the USDA or the American Meat Institute, the two major sources of statistics on the industry.

Officials from these sources stated that the term "capacity" has diminished relevance to meatpacking and processing industries in any case. The vast bulk of lamb meat production is accomplished in large plants 1/ with machinery and labor which can be used to produce other meats. Since lamb accounted for less than 1 percent of total red meat 2/ production in 1980, and may therefore only be slaughtered at such plants sporadically, it is difficult to assign a capacity figure for lamb production alone. Also, the capacity in any plant varies by the number of Federal inspectors available and by the line speed of labor in the slaughtering process, which varies by year, plant, and union contract. In the final analysis, the number of lambs brought to slaughter defines the capacity of the industry in any one season, because given the extremely limited consumer appeal of mutton in the U.S. market, lambs intended for slaughter must be harvested within 14 months of birth or be drastically discounted in price.

U.S imports.--U.S. imports of fresh, chilled, or frozen lamb meat enter the United States under TSUS item 106.30. New Zealand is the predominant exporter of lamb meat to the U.S. market, accounting for 80 percent by quantity, and 83 percent by value, of total U.S. lamb meat imports from January 1978 to August 1981. The sole U.S. importer of lamb meat from New Zealand is the New Zealand Lamb Co., Inc., which imports the product exclusively in frozen form into the continental United States. 3/ Data on U.S. imports of lamb meat are given in table 14.

The total quantity of U.S. imports increased by 12 percent from 1978 to 1979, before dropping by 23 percent in 1980. Imports for January-August 1981 also show a decline from those in the corresponding period of 1980 of 5 percent on a quantity basis. The trend of imports on a value basis, however,

1/ Ninety-seven percent of sheep and lamb slaughter in 1980 was accomplished in plants with production of over 10,000 head per year. See American Meat Institute, Meatfacts, 1981, p. 11.

2/ Beef, veal, pork, lamb, and mutton.

3/ A small quantity of fresh lamb meat is imported into Hawaii.

Table 14.--Lamb meat, fresh, chilled, or frozen: U.S. imports for consumption, by principal sources, 1978-80, January-August 1980, and January-August 1981

Source	1978	1979	1980	January-August	
				1980	1981
	Quantity (1,000 pounds)				
New Zealand	29,576	30,550	28,782	20,870	20,777
Australia	8,392	12,029	4,199	3,052	2,048
All other	47	110	28	28	7
Total	38,015	42,690	33,009	23,949	22,832
	Value (1,000 dollars)				
New Zealand	23,854	29,697	31,376	22,615	24,399
Australia	5,875	10,106	4,127	3,026	2,067
All other	32	66	42	41	12
Total	29,760	39,870	35,545	25,682	26,478
	Unit value (per pound)				
New Zealand	$0.81	$0.97	$1.09	$1.08	$1.17
Australia	.70	.84	.98	.99	1.01
All other	.68	.60	1.50	1.46	1.71
Total	.78	.93	1.08	1.07	1.16

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

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

follows a somewhat different pattern, increasing from 1978 to 1979, then declining in 1980, but not as noticeably as did imports on a quantity basis. The value of imports in January-August 1981 actually rose slightly over that in January-August 1980.

Imports of lamb meat from New Zealand increased in 1979, then decreased in 1980 on a quantity basis; imports from that country for January-August 1981 are slightly behind those for January-August 1980. However, imports from New Zealand on a value basis exhibited a steady increase throughout the period, rising from $23.9 million in 1978 to $31.4 million in 1980, or by 32 percent. The value of imports from New Zealand continued to rise in January-August 1981, increasing by 8 percent over imports in the corresponding period of the previous year.

Inventories.--Because lamb meat is a perishable commodity, the vast bulk is processed, shipped, and consumed within 3 weeks of slaughter. Inventories of lamb meat are minor compared with annual production but have decreased over the last several years to about 10 million pounds on December 31, 1980 and May 31, 1981. Cold-storage stocks of lamb meat from January 1978 through May 1981 are given in table 15.

Table 15.--Lamb meat: Cold-storage stocks on the first of the month, by months, January 1978-May 1981

(In millions of pounds)

Period	1978	1979	1980	1981
January	12	12	11	9
February	11	10	10	9
March	11	9	9	8
April	12	12	8	8
May	12	12	8	10
June	10	13	9	1/
July	10	11	10	1/
August	12	12	10	1/
September	11	12	9	1/
October	11	11	8	1/
November	12	12	8	1/
December	12	11	10	1/
Average	11.3	11.4	9.2	8.8

1/ Not available.

Source: Compiled from official statistics of the USDA.

U.S. employment and earnings.--Data on employment and earnings of workers in the meatpacking and processing sector, of which lamb packing and processing is a part, are presented in table 16.

Table 16.--Average number of production and related workers engaged in meatpacking and processing, hours worked by such workers, and average hourly earnings received, 1/ 1978-80

Item	1978	1979	1980
Meatpacking:			
Average number of production and related workers	135,400	132,200	132,700
Average weekly hours worked	41.4	41.7	41.4
Average hourly earnings	$7.09	$7.73	$8.50
Meat processing:			
Average number of production and related workers	52,100	51,000	50,500
Average weekly hours worked	39.5	40.1	39.4
Average hourly earnings	$6.73	$7.40	$8.07

1/ Earnings figures do not include fringe benefits.

Source: American Meat Institute, from U.S. Department of Labor statistics.

Table 16 shows that the number of production and related workers in the meat packing and processing industry declined by a combined total of 2 percent from 1978 to 1980, although hours worked remained at around 40 per week. Hourly earnings rose by 20 percent for employees in the meatpacking and meat processing industries from 1978 to 1980. The increases in hourly earnings for production and related workers in meatpacking and processing were somewhat greater than those for workers engaged in the food-producing sector of the economy, the earnings of which increased by 18 percent from 1978 to 1980, as well as all production and related workers in the manufacturing sector, whose wages also increased by 18 percent over the same period. 1/

Comparing earnings of production and related workers in the lamb-meat-processing industry in the United States and New Zealand shows that New Zealand workers' average earnings in 1980-1981 of * * * per hour are * * * percent below their U.S. counterparts' earnings of $8.07 per hour. 2/

1/ American Meat Institute, Meatfacts, 1981 edition, p. 23.

2/ Fringe benefits for production and related workers in New Zealand are substantial, however. Total earnings for these workers were * * * per hour in 1980-1981. New Zealand data provided from a letter by Mr. Graeme Lindsay, Executive Vice President, New Zealand Lamb Co., Oct. 13, 1981.

U.S. exports.--U.S. exports of lamb meat were 1.3 million pounds in 1980, which accounted for only 0.4 percent of domestic production. The principal export market was the Bahamas, which accounted for 22 percent of total exports. The quantity and value of U.S. exports are given in the following tabulation:

Period	Quantity (1,000 pounds)	Value (1,000 dollars)
1978	3,032	4,073
1979	1,238	2,043
1980	1,311	2,276
January-August--		
1980	762	1,342
1981	1,011	1,448

Financial experience of U.S. lamb meat producers.--Profit-and-loss data on U.S. lamb meat producers were unavailable because of insufficient questionnaire response. In lieu of such specific data, the staff analyzed profit-and-loss data derived from American Meat Institute data on the financial experience of 173 firms packing red meat, which accounted for 58 percent of U.S. lamb meat production, 40 percent of beef production, and 78 percent of pork production in 1980. These data are presented table 17.

Financial data presented in table 17 show net sales increasing by 13 percent from 1978 to 1980. The increase in total sales more than kept pace with cost increases so that the ratio of earnings before taxes increased from 1978 to 1979, before falling marginally in 1980. It should be noted, however, that earnings for the industry were extremely low, averaging less than 2 percent of total sales throughout the 3-year period.

The Question of a Reasonable Indication of Threat of Material Injury

Rate of increase of imports and market penetration

As part of its consideration of the question of a reasonable indication of threat of material injury, the Commission may examine the rate of increase, if any, of allegedly subsidized exports to the U.S. market, and the rate of increase of market penetration of such exports. In the case of lamb meat from

Table 17.--Profit-and-loss experience of 173 meat packers on their lamb meat, beef, and pork operations, 1978-80

Item	1978	1979	1980
Total sales----------million dollars--	43,625	47,650	49,100
Cost of livestock and other raw material----million dollars--	34,425	37,850	38,500
Gross margin----------do----	9,200	9,800	10,600
Operating expenses:			
Wages and salaries----------do----	3,465	3,511	3,860
Total employee benefits 1/------do----	1,019	1,048	1,183
All other operating expenses-2/-do----	4,148	4,399	4,735
Total operating expenses------do----	8,632	8,958	9,778
Earnings before taxes----------do----	568	842	822
Ratio of earnings before taxes to total sales----------percent--	1.3	1.8	1.7

1/ Includes expenses for retirement; insurance and hospitalization, vacation, holiday, and sick leave; social security taxes, and all other unspecified benefits for both wage and salary employees.
2/ Includes interest expenses.

Source: Derived from data of the American Meat Institute, Annual Financial Review, 1980.

New Zealand, imports and market penetration from 1978 to 1980, and in January-August 1980 and 1981 were as follows:

Period	Imports from New Zealand (1,000 pounds)	Share of imports from New Zealand in apparent U.S. consumption (Percent)
1978----------	30	9
1979----------	31	10
1980----------	29	9
January-August--		
1980----------	21	10
1981----------	21	9

Both the level of imports of lamb meat from New Zealand and the share of such imports in apparent U.S. consumption were stable from 1978 through 1980; imports and market penetration were also stable during January-August 1981 compared with those in January-August 1980. Imports from New Zealand remained at around 30 million pounds from 1978 to 1980, and are projected to remain at that level in 1981. Likewise, the share of imports from New Zealand in apparent U.S. consumption of lamb meat remained at about 10 percent for the entire period.

Importer's inventories

Virtually all the lamb meat imported from New Zealand enters the United States in frozen form and is assigned to warehouses where it is kept until sold and distributed to retail stores or institutions. Inventories of imported lamb meat from New Zealand as of December 31, 1979, December 31, 1980, August 31, 1980, and August 31, 1981, are presented in the following tabulation:

	Quantity (1,000 pounds)	As a share of apparent U.S. consumption (percent)
Dec. 31--		
1979----------	***	***
1980----------	***	***
Aug. 31--		
1980----------	***	***
1981----------	***	***

Inventories of lamb meat imports from New Zealand increased by 13 percent from December 31, 1979, to December 31, 1980, and by 34 percent from August 31, 1980, to August 31, 1981. Such inventories' share of apparent U.S. consumption remained relatively stable.

Capacity of New Zealand to generate exports to the United States and the availability of other export markets

New Zealand was the world's third largest producer of lamb and mutton meat in 1980, surpassed only by the U.S.S.R. and Australia. New Zealand's total exports of over 1 billion pounds in 1980 were over three times total U.S. production of 291 million pounds. 1/ In the last several years, New Zealand has exported more lamb meat to its various markets than all other exporting countries combined. New Zealand's chief export markets are presented in table 11, which shows total exports from New Zealand decreasing from 695 million pounds in the fiscal year ending September 30, 1976, to 669 million pounds in the fiscal year ending September 30, 1978, before rising to 772 million pounds in fiscal year 1980. Exports to the United States decreased sharply from 1976 to 1977, recovered in 1978 and 1979, the high years for such exports, and then fell once more in 1980, to 25 million pounds, or by 22 percent from the previous year and 9 percent from 1976. New Zealand's chief export market, the United Kingdom, also decreased its imports from 1976 to 1980. The overall increase in total New Zealand exports is therefore directly attributable to substantial increases in export shipments to the Middle East, specifically to Iran, from 1979 to 1980.

Except for the anomalous fiscal year of 1977, exports to the United States represented around 4 percent of total New Zealand exports, with that share falling to 3 percent in 1980.

1/ See tables 7 and 10.

Lamb meat from New Zealand is not a homogeneous product, but is divided into 11 different grades, of which 5 are eligible for export to the United States. 1/ Exporters of lamb meat compete with each other to secure carcasses within each grade for their customers in foreign countries. Lamb meat purchased by DEVCO for the North American market differs from most of New Zealand's lamb meat exports in that it is specially conditioned and aged, and comes to the North American market predominantly in the form of primal cuts rather than carcasses. The requirement of conditioning and accelerated aging limits the amount of lamb meat that can be supplied to DEVCO by the slaughtering houses in New Zealand.

The Question of the Causal Relationship Between the Allegedly Subsidized Imports and Material Injury

Market penetration

The quantity of imports of lamb meat from New Zealand as a share of apparent U.S. consumption rose slightly from 9.3 percent in 1978 to 9.9 percent in 1979, before falling back to 8.9 percent in 1980. The share of imports from New Zealand in apparent U.S. consumption also decreased slightly in January-August 1981 compared with the share in the corresponding period of 1980, as shown in table 18.

Prices

Lamb and other meats are marketed at two distinct levels before being sold to distributors and retailers. The first level is the sale of the live animal to a meatpacker (either directly from a farmer or from a feedlot). The second is the sale of carcasses and selected primal cuts in the wholesale market. Prices at each of these levels are discussed below. At the first level of distribution, the analysis focuses on the effects of imports 2/ on farm prices, price trends of lamb relative to other livestock, and factors which have affected these trends. At the wholesale level of distribution, domestic lamb meat prices are compared with prices of the imported product and with prices of other types of domestic meat.

Farm prices.--Although most imports of lamb meat from New Zealand are imported as frozen primal cuts, domestic farm lambs are sold at an earlier stage in the production process. However, the effects of imported lamb meat at the wholesale level will have an effect at the farm level. If sales of imported lamb meat to wholesalers cause reduced domestic prices or sales, the effects may be seen in concurrent reductions in prices or sales volume for

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1/ In fiscal year 1980, carcasses from these five grades represented 59 percent of the total annual lamb slaughter. See the Annual Report of the New Zealand Meat Producers' Board, table 7A. Not all of the carcasses within these 5 grades are suitable for export to the United States, however.

2/ The only imports considered in this analysis are of lamb meat from New Zealand, which accounted for about 87 percent of total lamb meat imports in 1980.

Table 18.--Lamb meat from New Zealand: U.S. producers' shipments 1/, imports for consumption, total and from New Zealand, exports, and apparent consumption, 1978-80, January-August 1980, and January-August 1981

Period	U.S. producers' shipments 1/	Total imports	Imports from New Zealand	Exports	Apparent consumption	Ratio of imports to consumption	
						Total	From New Zealand
	1,000 pounds					Percent	
1978	282,683	38,015	29,576	3,032	317,666	12.0	9.3
1979	268,570	42,690	30,550	1,238	310,022	13.8	9.9
1980	291,107	33,009	28,782	1,311	322,805	10.2	8.9
January-August--							
1980	190,607	23,949	20,870	762	213,794	11.2	9.8
1981	200,420	22,832	20,777	1,011	222,241	10.3	9.3

1/ Carcass-weight equilivant of production, includes U.S. production of certain cuts that are not imported.
2/ Compiled from official statistics of the U.S. Department of Commerce.

Source: Compiled from official statistics of the U.S. Department of Agriculture, except as noted.

domestic farm lambs. There has been a positive relationship in quarterly price trends between the domestic farm and wholesale prices of lamb from January 1978 to June 1981. 1/

Prices in the agricultural sector are generally subject to wider price fluctuations over time than are manufactured goods, in large part owing to the producers' inability to control supply in the short run in response to changing market conditions. Variables that influence the supply of lamb (slaughter or production) include costs of production (feed costs, interest expenses, and so forth), weather conditions, and expectations of future prices. Consumer demand for lamb is influenced by prices of competing livestock or meats, consumer income, and similar factors.

From 1964 through 1979, farm prices of lamb showed a steady upward trend, 2/ in contrast to greater price fluctuations for beef cattle and hogs. This pattern can in part be explained by a steady decrease in slaughter and production of lamb. Slaughter of beef cattle and hogs, on the other hand, fluctuated irregularly. Prices of livestock have generally fallen when slaughter increased, and decreases in slaughter have generally given upward pressure to prices (see table 19 and figs. 4, 5, and 6). Because the various types of livestock compete in the marketplace, prices are interrelated to some extent (fig. 7).

In this context, an analysis can be made of factors affecting lamb prices from January 1978 through June 1981. From 1971 to 1979 there was a steady decline in lamb production, with a concurrent increase in price. This price increase was especially significant from 1974 to 1979, when the farm price of lamb increased at an average annual rate of 12.7 percent. Although farm prices of beef cattle and hogs during this period showed some cyclical variation, the general trends were positive, giving a positive impetus to lamb prices through 1979. In 1980, a number of factors led to a general decrease in the farm price of lamb. For the first time since 1971, lamb slaughter increased by 11 percent, putting some downward pressure on the price. In addition, increased production of beef cattle and hogs led to lower prices for these products, also putting downward pressure on lamb prices; the decrease in hog prices was especially significant (17 percent from 1978 to 1980). Consumption of red meat in general (with the exception of pork) declined from 190.7 pounds per person to 178.4 pounds from 1976 to 1980; for lamb the decline was from 1.9 to 1.5 pounds per person. The higher per capita consumption of pork in 1979 and 1980 could indicate a switch by some consumers from other higher priced meats to lower priced pork in those years. In 1979, 1980, and January-June 1981, the absolute price difference between pork and other red meats (beef and lamb) was the greatest it had been during 1964-81.

1/ A correlation coefficient of .58 existed between quarterly farm and wholesale prices over this period. A correlation coefficient of 1.00 shows a perfect correlation.

2/ There were slight price decreases for lamb in 1967, 1970, and 1971.

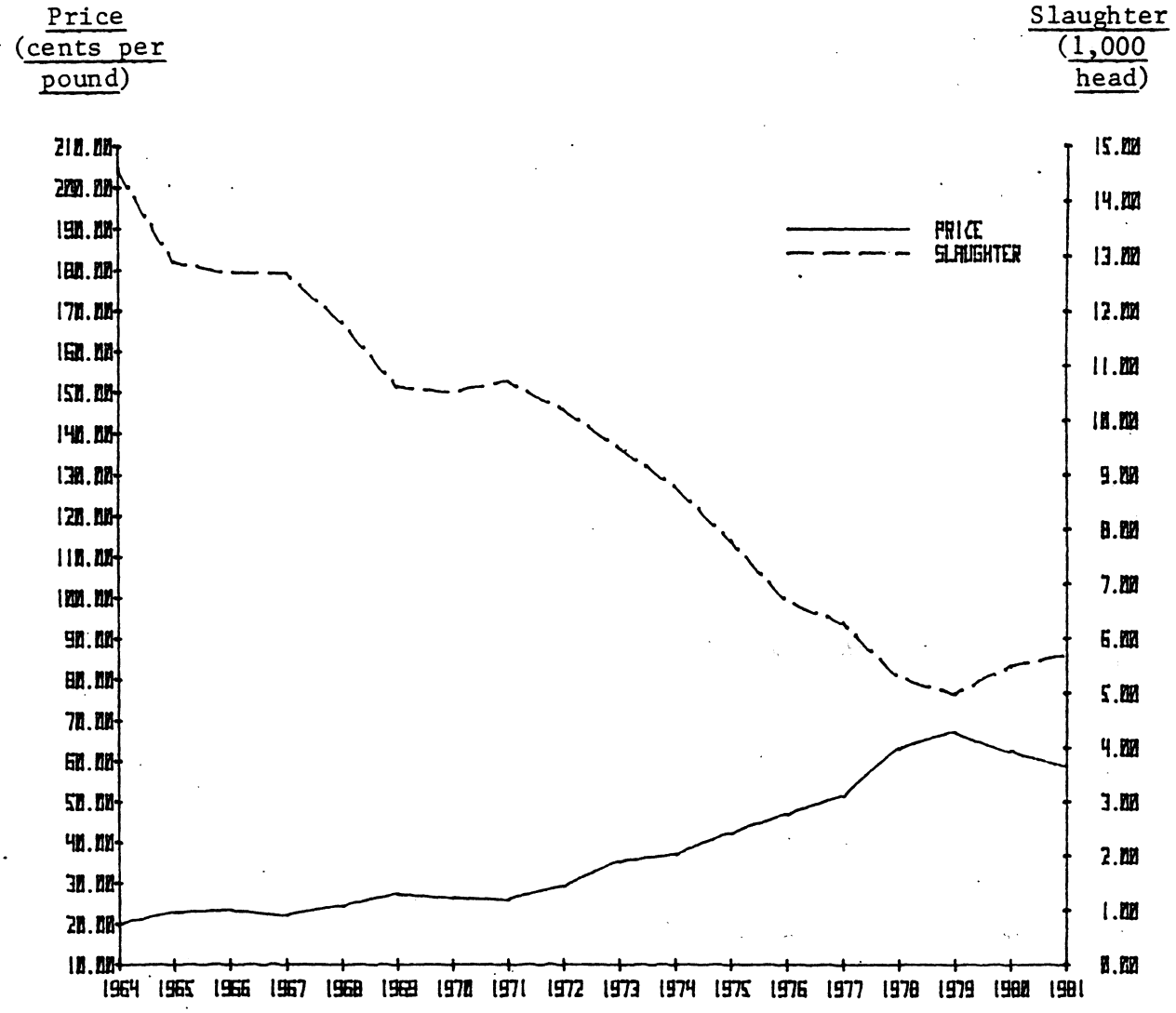
Table 19.--Farm prices and slaughter (production) of lamb, 1/ beef cattle, and hogs, 1964-80, January-June 1980, and January-June 1981

Period	Lamb		Beef		Hogs	
	Farm price	Slaughter	Farm price	Production	Farm price	Slaughter
	Cents per pound	1,000 head	Cents per pound	Million pounds	Cents per pound	1,000 head
1964	19.90	14,601	18.00	19,442	14.80	82,902
1965	22.80	12,999	19.90	19,719	20.60	73,780
1966	23.40	12,721	22.20	20,606	22.80	73,998
1967	22.10	12,768	22.30	20,976	18.90	82,136
1968	24.40	11,894	23.40	21,582	18.50	85,190
1969	27.20	10,688	26.20	21,798	22.20	83,888
1970	26.40	10,553	27.10	22,240	22.70	85,778
1971	25.90	10,730	29.00	22,414	17.50	94,492
1972	29.10	10,289	33.50	22,846	25.10	84,707
1973	35.10	9,597	42.80	21,634	38.40	76,795
1974	37.00	8,847	35.60	23,624	34.20	81,777
1975	42.10	7,835	36.69	24,849	46.10	68,687
1976	46.90	6,714	33.84	26,822	43.30	73,784
1977	51.30	6,356	34.53	24,942	39.90	77,303
1978	63.10	5,543	48.23	24,036	47.10	77,315
1979	67.20	5,189	65.96	21,261	41.43	89,099
1980	62.60	5,745	62.42	21,470	38.86	96,074
January-June						
1980	63.60	2,750	62.82	10,500	32.69	49,275
1981	59.10	2,887	59.28	10,981	40.45	46,242

1/ Includes lamb and sheep slaughter.

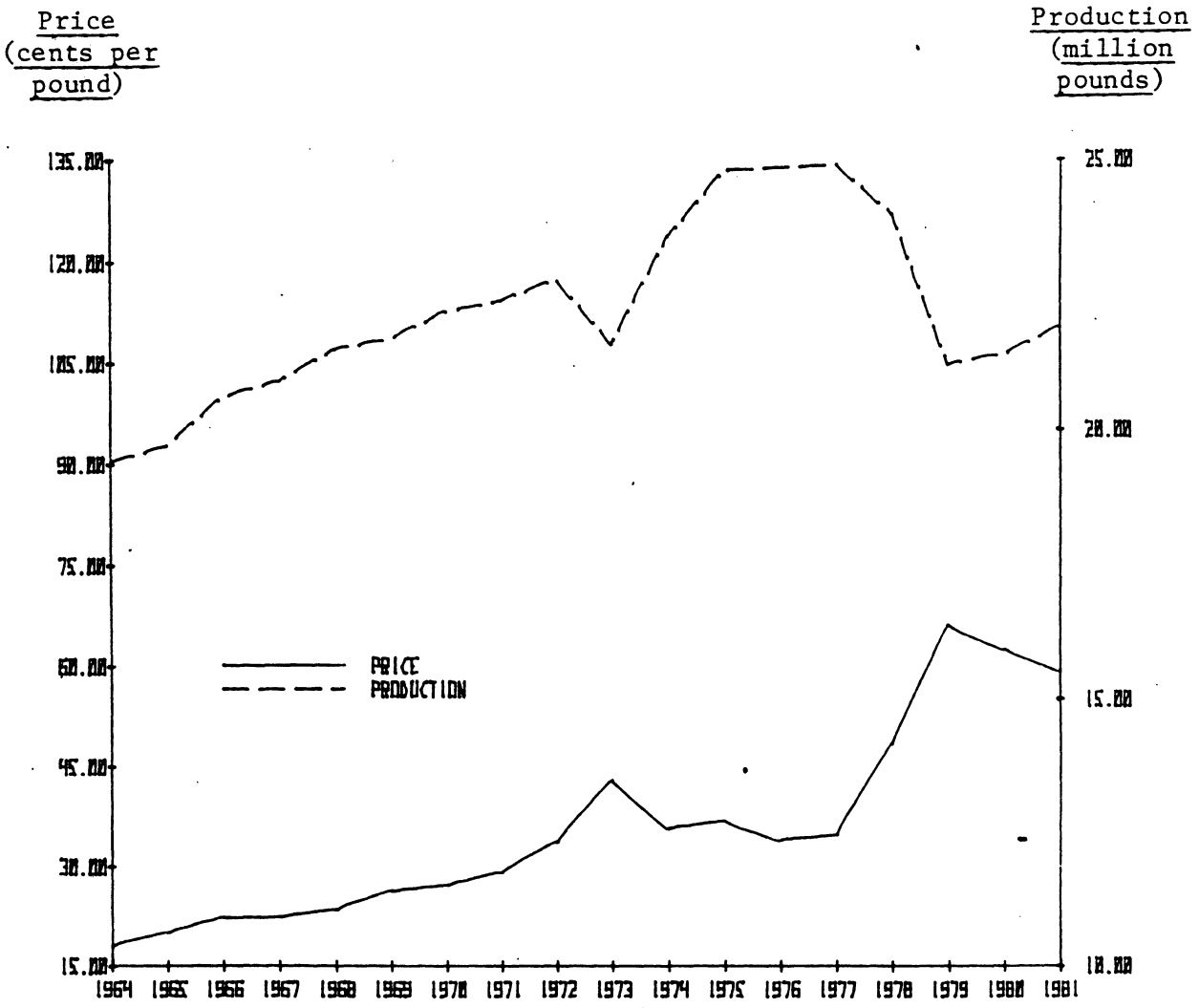
Source: Compiled from official statistics of the U.S. Department of Agriculture.

Figure 4.--U.S. farm prices for lamb and U.S. lamb slaughter, by years, 1964-80 and January-June (annualized) 1981.



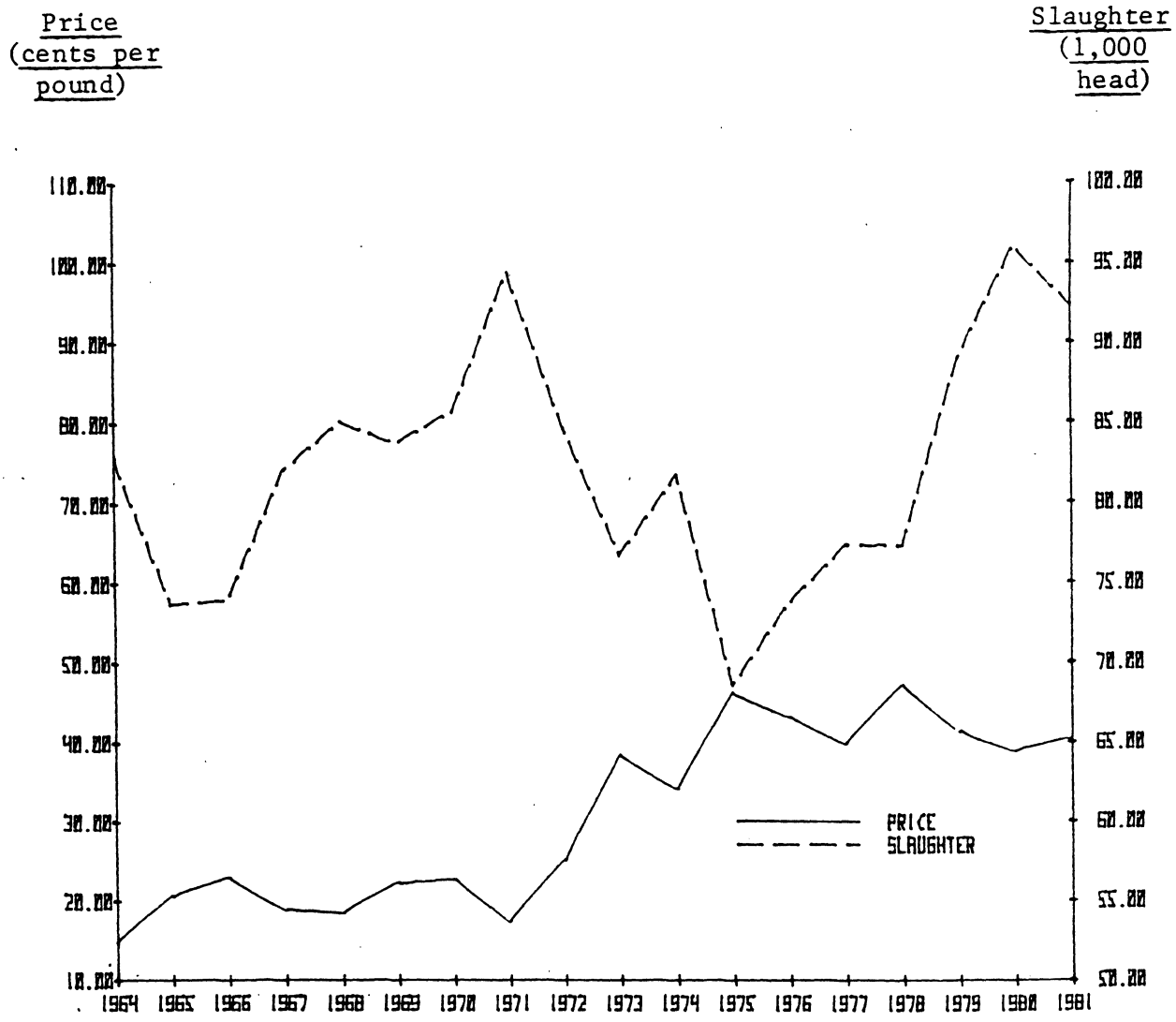
Source: Based on data in table 19.

Figure 5.--U.S. farm prices for beef cattle and U.S. beef cattle production, by years, 1964-80 and January-June (annualized) 1981.



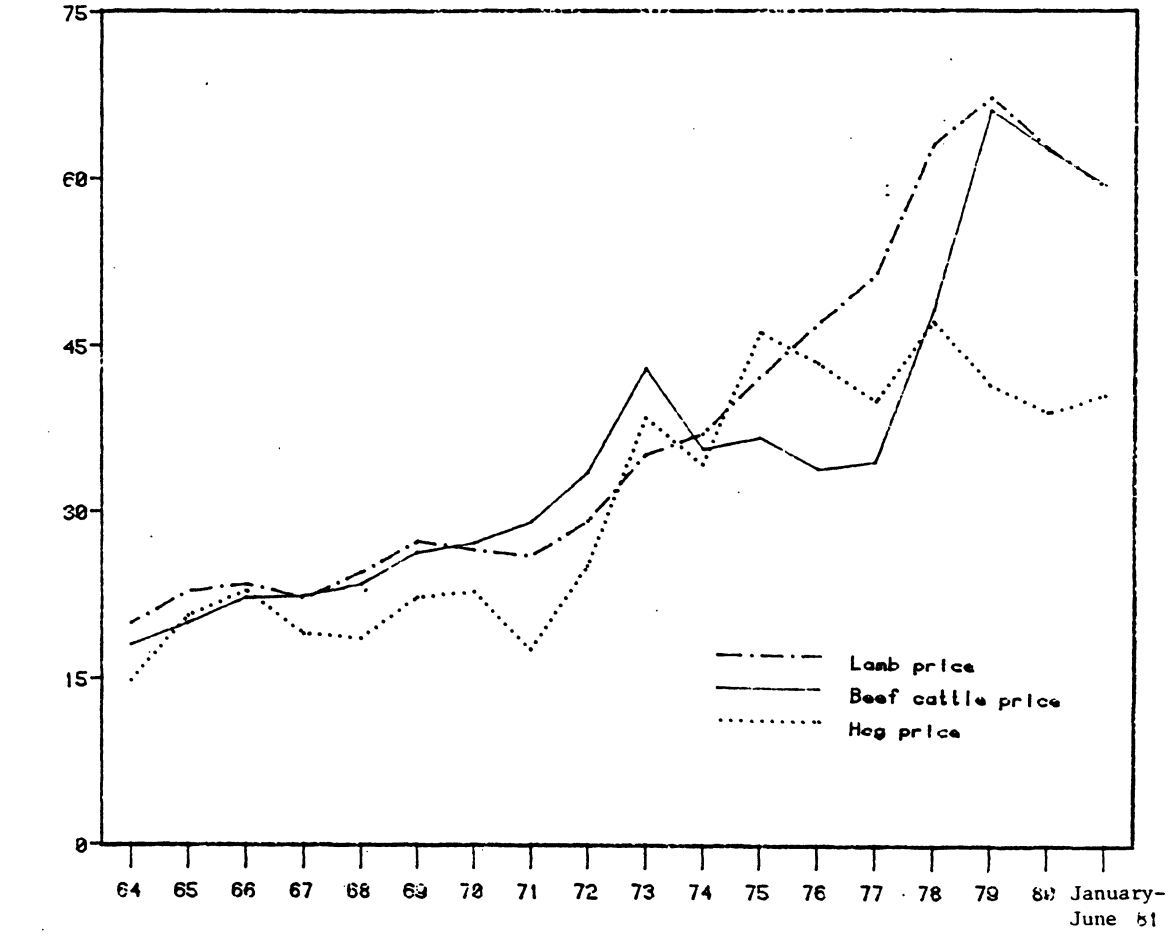
Source: Based on data in table 19.

Figure 6.--U.S. farm prices for hogs and U.S. hog slaughter, by years, 1964-80 and January-June (annualized) 1981.



Source: Based on data in table 19.

Figure 7.--U.S. farm prices of lamb, beef cattle, and hogs, by years, 1964-80 and January-June 1981



Source: Based on data in table 19.

Prices of most meats traditionally have been influenced by seasonal slaughter and demand patterns. Analysis of monthly farm prices for lamb since 1978, however, has shown only a slight seasonal pattern, with higher prices in March and October. Slaughter of lamb takes place at different times in different parts of the country, and aggregation of price data smoothes regional price fluctuations. In addition, in recent years, slaughter in many regions has been much more evenly distributed throughout the year.

Wholesale prices.--The level of distribution at which the prices of domestic and imported 1/ primal cuts of lamb are compared are sales by wholesalers to the retail and HRI trade. Although wholesalers purchase both domestic and imported lamb, the domestic product is generally bought from packers as a fresh whole carcass, but the imported product is generally bought as frozen primal cuts. Because of the additional costs necessary to process the domestic lamb into primal cuts, the wholesalers' domestic and import purchase prices are not directly comparable. A small proportion of the imported product is sold as frozen carcasses, and it is possible to compare domestic and import carcass prices in sales to wholesalers.

Domestic and import price data were collected for lamb carcasses and for two primal cuts (rack of lamb and leg of lamb). Domestic price data, representing wholesale prices in the New York metropolitan area, were provided by the U.S. Department of Agriculture. 2/ Import price data were collected from DEVCO for lamb cuts accounting for about * * * percent of DEVCO's imports.

Price trends.--Prices of domestic lamb and imports from New Zealand are shown in table 20. Prices of domestic lamb meat have shown some seasonal variability over the course of the year. In general, domestic lamb prices have been strongest in the spring (March and April) and in the fall. Increased demand during the Easter holiday could account for the strength of prices during the spring. Domestic prices have generally been weakest during the summer months. Because of seasonal demand factors and producers' relative inability to control the quantity of lamb coming to market over the course of the year, seasonal price variability would be expected.

The wholesale price of lamb generally increased in the period prior to 1979. In April-June 1979, wholesale lamb prices began a downward trend, and in 1980, the annual average wholesale price of lamb was 7 percent below the 1979 price (table 21). Although wholesale lamb prices increased in April-June 1981, prices declined again in the third quarter, when the average wholesale price was still 11 percent below that of January-March 1979.

DEVCO, the importer of New Zealand lamb, states that its policy in the United States is to maintain a relatively stable price, with the general price level based on its costs. 3/ Prices of imported lamb meat have shown a steady upward trend from January-March 1979 to July-September 1981, with the

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1/ DEVCO accounts for all imports of lamb meat from New Zealand.

2/ Because of the importance of New York with respect to lamb consumption, the USDA believes that these prices are an accurate representation of domestic wholesale lamb prices.

3/ Transcript of public conference concerning Lamb Meat from New Zealand, Oct. 16, 1981, page 123.

Table 20.--Prices of domestic and New Zealand lamb at the wholesale level of distribution, by cuts and by quarters, January 1979-September 1981

(January-March 1979=100)

Period	Carcasses 1/		Racks 2/		Legs 2/	
	Domestic	New Zealand	Domestic	New Zealand	Domestic	New Zealand
1979:						
Jan.-Mar---	144.2	99.0	226.7	213.0	153.0	131.0
Apr.-June--	141.3	105.0	220.3	218.0	166.3	131.0
July-Sept--	124.9	105.0	190.7	233.0	148.3	131.0
Oct.-Dec---	127.6	105.0	208.7	253.0	157.7	131.0
1980:						
Jan.-Mar---	138.6	105.0	221.7	253.0	166.3	133.0
Apr.-June--	135.9	105.0	228.0	253.0	154.3	133.0
July-Sept--	140.4	105.0	310.3	258.0	148.7	135.0
Oct.-Dec---	128.3	118.0	242.3	270.0	146.3	135.0
1981:						
Jan.-Mar---	127.6	126.0	178.3	279.0	145.7	140.0
Apr.-June--	136.1	126.0	245.3	279.0	171.3	141.0
July-Sept--	127.7	126.0	205.0	286.0	147.7	147.0

1/ Prices from domestic packers and the importer to wholesalers.

2/ Prices from wholesalers to retailers or the HRI trade. These prices include an average markup of 4 cents per pound over the importer to wholesaler price for New Zealand racks and legs.

Source: Compiled from official statistics of the U.S. Department of Agriculture, and from data submitted in response to questionnaires of the U.S. International Trade Commission.

carcass-equivalent price 1/ increasing at an average annual rate of 8 percent. No seasonal price variation is apparent in these prices. Two factors contribute to this relative price stability: because DEVCO maintains inventories of frozen lamb meat in the United States, it has some degree of control over quantities of imported lamb meat sold in the U.S. market during

1/DEVCO establishes a "carcass equivalent price" which is derived from the total cost (including a profit margin) of selling a lamb, fully processed and packaged into primal cuts, in the U.S. market. Prices of the individual primal cuts, when weighted by the proportion of the weight of the lamb each cut makes up, should equal the carcass-equivalent price. Thus, prices of the individual primal cuts may vary, depending on demand factors, as long as the carcass-equivalent price is roughly maintained.

Table 21.--Price indexes of U.S. wholesale prices of lamb, beef, and pork, by quarters, January 1979-September 1981

(January-March 1979=100)

Period	Lamb	Beef	Pork
1979:			
January-March	100	100	100
April-June	98	109	90
July-September	87	100	83
October-December	89	104	76
1980:			
January-March	96	105	76
April-June	92	104	71
July-September	97	112	88
October-December	89	104	90
1981:			
January-March	88	98	91
April-June	95	105	90
July-September	89	106	100

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

any given short-term period. In addition, DEVCO is the only importer of lamb meat from New Zealand and has been able to differentiate its product, all of which is frozen, from domestic lamb meat to some extent. It therefore has a degree of control over price that does not exist for domestic packers, who are competing with one another for sale of fresh lamb meat.

DEVCO conducts periodic advertising programs in cooperation with retailers. In these programs, the retailers who advertise New Zealand lamb receive an allowance from DEVCO based on the amount of New Zealand lamb sold. In 1979 (fiscal year from Nov. 1 to Oct. 31), this advertising amounted to about * * * cents per pound for DEVCO's total sales. In 1980, it was * * * cents per pound, and in 1981, it is estimated at about * * * cents per pound. However, since this program is carried out during specific times of the year, and for specific cuts of lamb, the benefit to the retailer could be more concentrated for a given cut at a certain time of the year. For example, in its most recent promotional period (Oct. 9-Nov. 16, 1981), advertising allowances for legs of lamb were from * * * to * * * cents per pound. The retailer does not collect the rebate until after the sale of New Zealand lamb has been made. Cooperative advertising of this nature is a frequent practice in the grocery retail trade. The domestic lamb industry has a similar cooperative advertising program with retailers, the magnitude of which is not known.

Margins of underselling or overselling.--Prices of imported carcasses and legs were generally below those for domestic cuts from January 1979 to September 1981, although prices of imported racks were generally higher than prices of domestic racks. The margins of underselling for carcasses and legs decreased during the period as prices of imported lamb increased and prices of the domestic product generally decreased. The margin of overselling of racks of lamb increased from July-September 1979 to July-September 1981. Table 20 and figures 8, 9, and 10 compare domestic and import prices for the three cuts of lamb.

Margins of underselling for lamb carcasses decreased from 45 cents per pound in January-March 1979 (31 percent) to 1.7 cents per pound in July-September 1981 (1.0 percent). The difference narrowed appreciably at the end of 1980 and the beginning of 1981 as import prices rose by 20 percent from July-September 1980 to January-March 1981. Over the same period, domestic prices decreased by 9 percent. In April-June 1981, domestic price increases widened the differential to 10.1 cents per pound (7.0 percent), but domestic price decreases in July-September again narrowed the margin of underselling.

Margins of underselling for leg of lamb decreased from 22 cents per pound (14.0 percent) in January-March 1979 to 0.7 cent per pound in July-September 1981 (0.5 percent). Most of this decrease in the differential occurred from January-March 1980 to January-March 1981, as domestic prices decreased by 12 percent and import prices increased by only 5 percent. The difference widened appreciably in April-June 1981, when domestic prices increased by 18 percent, probably due to increased demand at Easter. However, domestic price decreases in July-September 1981 again reduced the margin of underselling.

The rack of lamb is the only cut of those cuts for which price data were collected where the import price was generally higher than the domestic price. The only periods when the imported product undersold the domestic rack of lamb were in January-March 1979 and April-June 1980. During January-September 1981, the imported product oversold the domestic product by an average of 72 cents per pound (34 percent). The New Zealand rack of lamb has apparently been marketed successfully in the HRI trade at a premium price because it is smaller than the domestic rack and more suitable for a single serving.

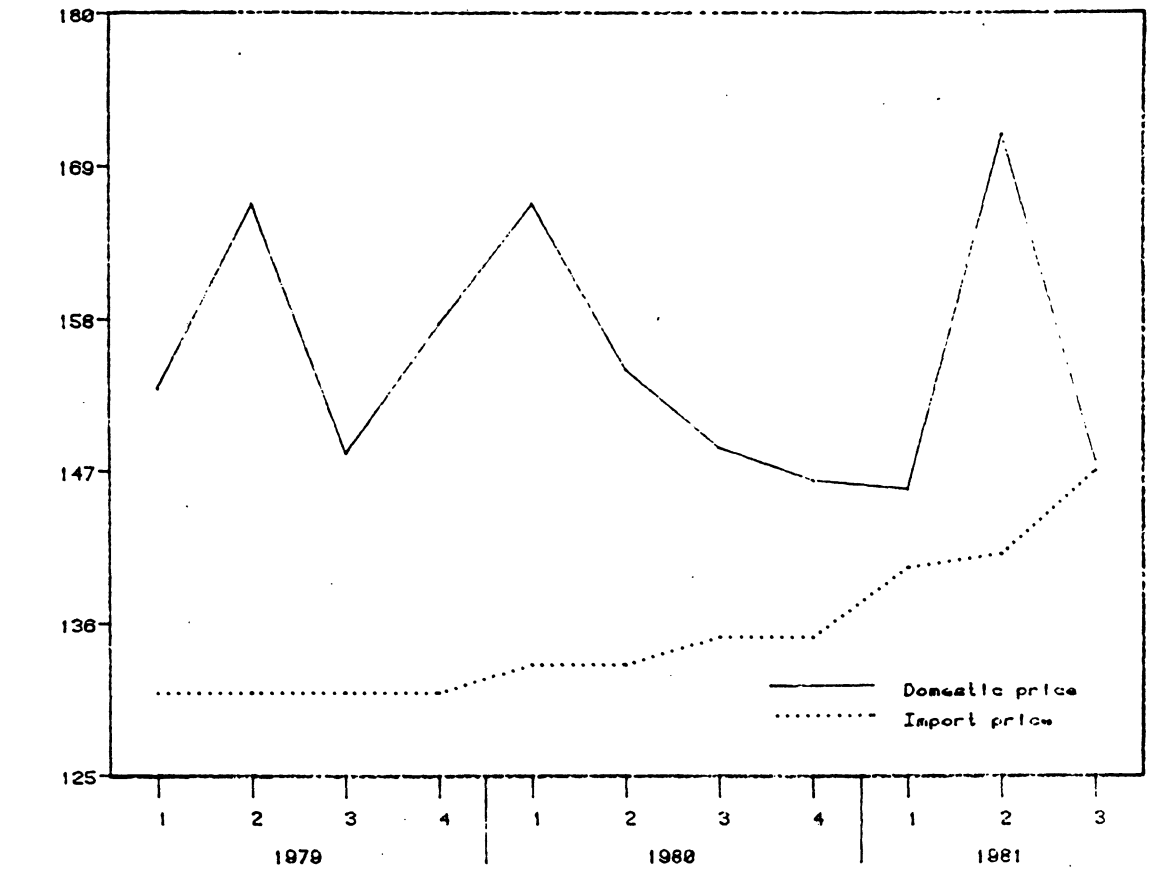
Price suppression or depression.--Domestic lamb prices generally declined during January 1979-September 1981, but prices of imported lamb increased. During this period, prices of imported carcasses and legs were lower than domestic lamb prices and may have contributed to these price declines, although the following analysis suggests that the contribution was small.

Several factors influenced wholesale prices of lamb during 1979-81. Domestic lamb meat competes with other domestic meats, and, therefore, prices of all meats are related to some extent. In addition, domestic lamb prices are related to the supply of lamb, which increased in 1980 for the first time since 1971. It is difficult to distinguish the effect of imported lamb meat prices on domestic lamb meat prices from the influence of these other variables. Table 21 and figure 11 show comparisons between domestic wholesale

Figure 8.--Prices of lamb carcasses from U.S. packers and the New Zealand importer to wholesalers, by quarters, January 1979-September 1981.

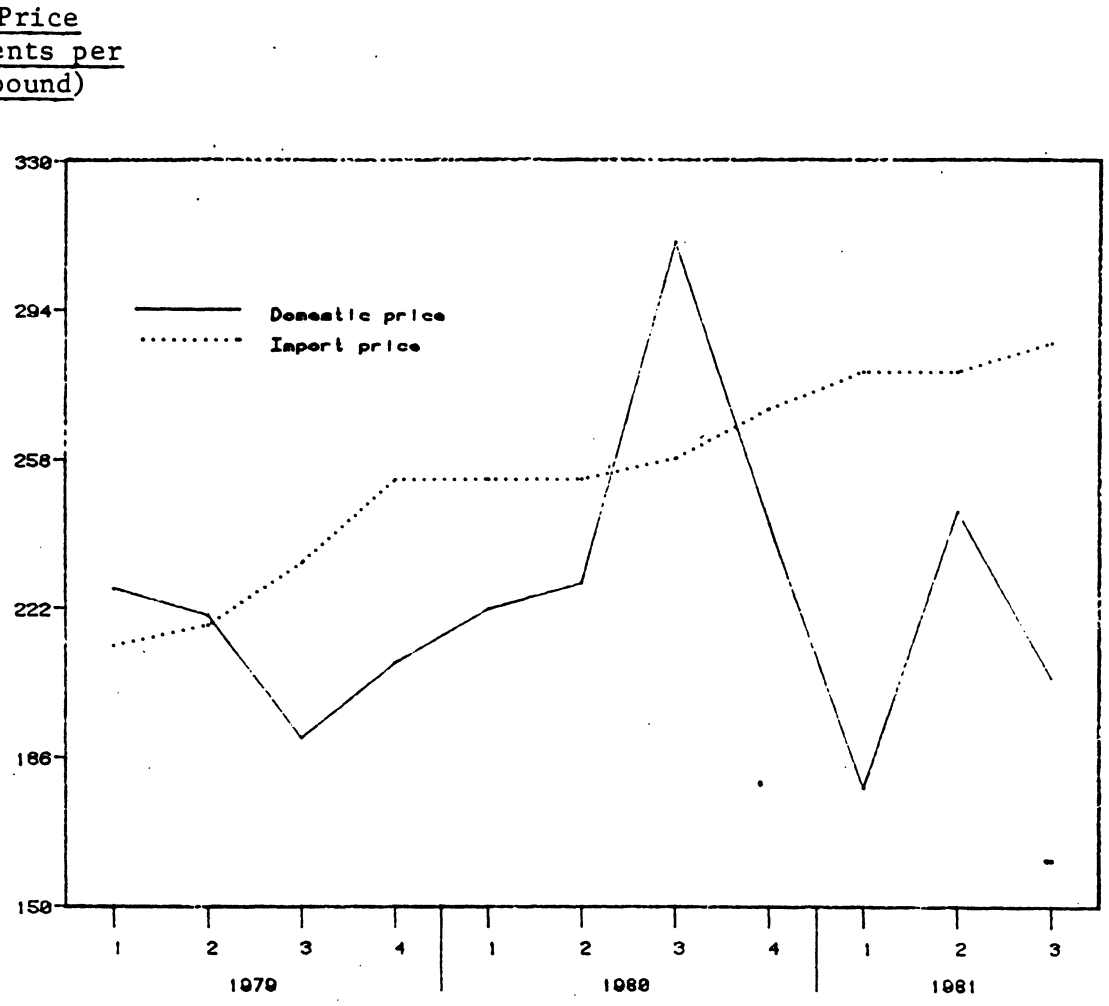
Source: Based on data in table 20.

Figure 9.--Prices of leg of lamb from U.S. wholesalers and the New Zealand importer to retailers or the HRI trade, by quarters, January 1979-September 1981.



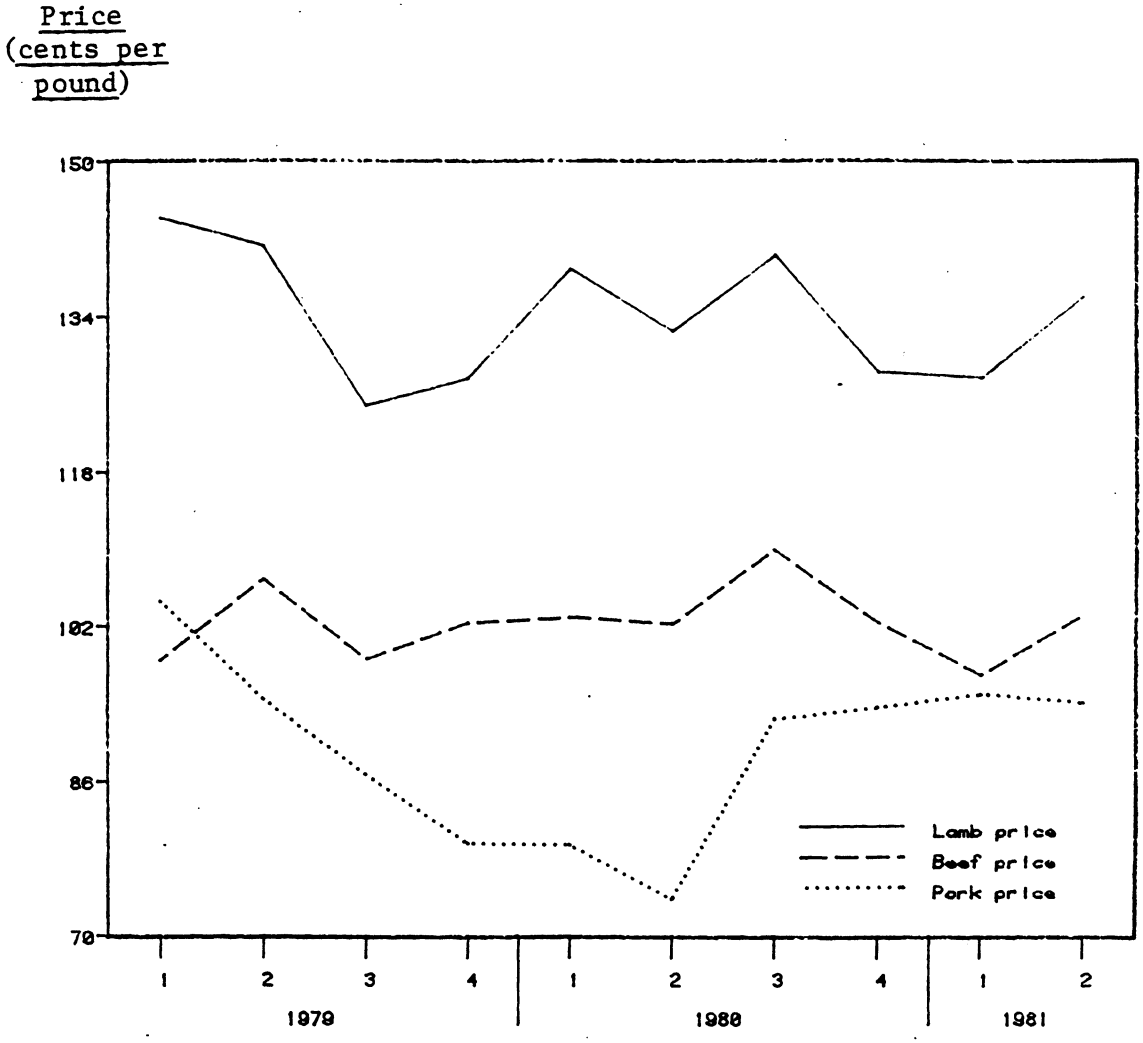
Source: Based on data in table 20.

Figure 10.--Prices of racks of lamb from U.S. wholesalers and the New Zealand importer to retailers or the HRI trade, by quarters, January 1979-September 1981.



Source: Based on data in table 20.

Figure 11.--U.S. prices for domestic lamb, beef, and pork, by quarters, January 1979-June 1981.



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

price indexes for lamb, beef, and pork. During January 1979-September 1981, the wholesale price of beef increased slightly (6 percent), but wholesale prices of pork generally declined. The index of prices presented in table 21 shows that compared with beef prices, lamb prices were weak from 1979 to September 1981. Lamb prices decreased by 11 percent from January-March 1979 to July-September 1981, but beef prices increased by 6 percent. Beef prices were generally high throughout the period compared with the January-March 1979 level. However, figure 11 indicates a correlation between seasonal changes in beef and lamb prices, suggesting that similar influences may affect prices of both meats. Wholesale pork prices declined significantly more than lamb prices over the same period, with a price decrease of 10 percent. Pork prices were especially depressed in 1980, averaging 18 percent below the January-March 1979 level.

Domestic lamb prices were high at the time that margins of underselling were greatest. Throughout the period that domestic wholesale lamb prices were declining, import prices increased, with a resulting decrease in margins of underselling. The importance of influences other than imports on lamb prices and the overall negative impact these influences seem to have had on prices of all meats over the period suggest that the effects of imports of New Zealand lamb on domestic lamb prices were small by comparison.

Lost sales

Of the eight domestic packers of lamb to whom questionnaires were sent, two wrote letters to the Commission stating that they had lost sales of domestic lamb owing to import competition from New Zealand lamb. However, these two provided no specific information relating to the quantity of sales lost, customers the sales were lost to, or dates of the lost sales. Two reasons given for the loss of sales were (1) the lower price of the imported lamb and (2) aggressive marketing by the importer in the U.S. market. The other six packers provided no information to the Commission relating to lost sales.

Counsel for the petitioner provided the Commission with a list of six distributors of lamb meat which they felt might provide the Commission with instances of lost sales; four were contacted by the Commission. Two of these purchase only domestic lamb, and two purchase both domestic and imported lamb. The two which purchase only fresh domestic lamb believed that the imported frozen lamb competes with their product and had adversely affected their sales, but provided no data on the magnitude of sales lost owing to import competition. One of the two distributors which buy both the domestic and imported product sells exclusively to the HRI trade. It could not comment on whether the proportion of New Zealand lamb in its total purchases had increased, although it had perceived such an increase for certain imported primal cuts (racks and forequarter cuts). The other distributor (also a packer) operates numerous HRI distribution outlets throughout the country which handle both domestic and imported lamb and also sells to national retailers. It stated that HRI distributors have recently increased their purchases of domestic lamb due to its declining price. Important points raised in the conversations with the four distributors are summarized below.

1. All distributors believed that New Zealand lamb competes with the domestic product, although the degree of competition differed according to the cut of lamb and the customer (retail or HRI trade).

2. New Zealand was considered to be more competitive in the HRI trade, especially with respect to racks of lamb and cuts coming from the forequarters of the lamb. The rack of lamb was considered especially suited for the HRI trade because of its small size which was suitable for a single serving. The size of the domestic lamb rack is suitable for two servings. Because of the preference for the imported lamb rack, it has been able to command a price comparable with or higher than the domestic rack. Imported cuts coming from the forequarters were preferred by some customers for use in stews and stocks because they were leaner, had a stronger lamb flavor, and were lower priced.

3. Imported leg of lamb has not been competitive in the HRI trade because of the lower meat yield in proportion to total weight. In the retail trade, imported leg of lamb has had to sell at a discount, in large part owing to consumer reluctance to buy larger cuts of frozen lamb meat when fresh is available.

4. Prices of the imported lamb have generally been lower than those for domestic lamb, although the price differential has narrowed in recent years. This smaller price differential was attributed to declining domestic prices and to increasing consumer acceptance of the imported lamb.

APPENDIX A

UNITED STATES INTERNATIONAL TRADE COMMISSION NOTICE OF INVESTIGATION AND LIST OF WITNESSES APPEARING AT THE CONFERENCE

[Investigation No. 701-TA-80 (Preliminary)]

Lamb Meat From New Zealand; Preliminary Countervailing Duty Investigation

AGENCY: International Trade Commission.

ACTION: Institution of a preliminary countervailing duty investigation.

EFFECTIVE DATE: September 21, 1981.

SUMMARY: On September 21, 1981, the Commission was notified by the Department of Commerce that, in accordance with section 702 of the Tariff Act of 1930 (19 U.S.C. 1671a), it was commencing an investigation to determine whether the government of New Zealand offers its exporters, producers, and processors of lamb meat benefits that qualify as subsidies within the meaning of the Act. Accordingly, effective September 21, 1981, the Commission, pursuant to section 703(a) of the Act (19 U.S.C. 1671b(a)), instituted preliminary countervailing duty investigation No. 701-TA-80 (Preliminary) to determine whether there is a reasonable indication that an industry in the United States is materially injured, or is threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports from New Zealand of lamb meat, provided for in item 106.30 of the Tariff Schedules of the United States, upon which bounties or grants are alleged to be paid. The Commission must make its determination in the investigation within 45 days after the date on which the notice of investigation was received from the Department of Commerce, or by November 5, 1981 (19 CFR 207.17). The investigation will be subject to the provisions of part 207 of the Commission's Rules of Practice and Procedure (19 CFR 207, 44 FR 76457), and particularly subpart B thereof.

FOR FURTHER INFORMATION CONTACT: Patrick J. Magrath, Office of Investigations (202-523-0283).

SUPPLEMENTARY INFORMATION:

Background. On April 23, 1981, a petition was filed with the Department of Commerce by counsel for the National Wool Growers Association, Inc., Salt Lake, Utah, alleging that imports of lamb meat from New Zealand are being subsidized within the meaning of section 303 of the Tariff Act of 1930 (19 U.S.C. 1303). The National Lamb Feeders Association, Inc., Menard, Texas, became a copetitioner on May 12, 1981. As New Zealand was not at that time a "country under the Agreement" within the meaning of section 701(b) of the Act (19 U.S.C. 1671(b)), there was no requirement for the petition to be filed with the Commission pursuant to section 702(b)(2) and no requirement for the Commission to conduct a preliminary material injury investigation pursuant to section 703(a).

On September 17, 1981, however, the United States Trade Representative announced that New Zealand had become a "country under the Agreement" (46 FR 46263). Accordingly, Commerce terminated its investigation under section 303, initiated an investigation under section 702, and notified the Commission of its action.

Written subcommissions. Any person may submit to the Commission on or before October 23, 1981, a written statement of information pertinent to the subject matter of this investigation. A signed original and nineteen copies of such a statement must be submitted.

Any business information which a submitter desires the Commission to treat as confidential shall be submitted separately and each sheet must be clearly marked at the top "Confidential Business Data." Confidential submissions must conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business data, will be available for public inspection.

Conference. The Director of Operations of the Commission has scheduled a conference in connection with this investigation for 10:00 a.m., e.d.t., on October 16, 1981, at the U.S. International Trade Commission Building, 701 E Street NW., Washington, D.C. Parties wishing to participate in the conference should contact the supervisory investigator for this investigation, Mr. Lynn Feathertone (202-523-0242). It is anticipated that parties in support of the petition for countervailing duties and parties opposed to the petition will each be collectively allocated one hour within which to make an oral presentation at the conference. Further details concerning the conduct of the conference will be provided by the supervisory investigator.

Inspection of the petition. A copy of the petition filed with the Department of Commerce in this case is available for public inspection at the Office of the Secretary, International Trade Commission.

This notice is published pursuant to § 207.12 of the Commission's Rules of Practice and Procedure (19 CFR 207.12).

Issued: September 24, 1981.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 81-28434 Filed 9-29-81: 8:45 am]

BILLING CODE 7020-02-M

CALENDAR OF PUBLIC CONFERENCE

Investigation No. 701-TA-80 (Preliminary)

LAMB MEAT FROM NEW ZEALAND

Those listed below appeared as witnesses at the United States International Trade Commission conference held in connection with the subject investigation on Friday, October 16, 1981, in the Hearing Room of the USITC Building, 701 E Street, NW., Washington, D.C.

In support of the petition

Dow, Lohnes & Albertson--Counsel
Washington, D.C.
on behalf of

National Wool Growers Association
National Lamb Feeders Association

Jamie Kothmann, President, National Lamb Feeders Association
Bill Sims, Executive Secretary, Texas Sheep and Goat Raisers Association

William Silverman--OF COUNSEL

In opposition to the petition

Bronz & Farrell--Counsel
Washington, D.C.
on behalf of

North American Division, New Zealand Meat Producers Board
New Zealand Lamb Co., Inc.

Brian Jeffries, North American Director, New Zealand Meat Producers Board
Graeme Lindsay, Executive Vice President, New Zealand Lamb Co., Inc.

Edward J. Farrell--OF COUNSEL

APPENDIX B

UNITED STATES DEPARTMENT OF COMMERCE
NOTICES OF INVESTIGATION

Initiation of Countervailing Duty Investigation; Lamb Meat From New Zealand

AGENCY: International Trade Administration, Commerce.

ACTION: Initiation of countervailing duty investigation.

SUMMARY: We are initiating a countervailing duty investigation to determine whether the Government of New Zealand is subsidizing its producers and exporters of lamb meat. If the investigation proceeds normally, we will announce a preliminary determination by July 17, 1981.

EFFECTIVE DATE: May 18, 1981.

FOR FURTHER INFORMATION CONTACT: Roland MacDonald, Import Administration Specialist, Office of Investigations, International Trade Administration, Department of Commerce, Washington, D.C. 20230 (202) 377-4087.

SUPPLEMENTARY INFORMATION: On April 23, 1981, we received a petition from counsel for the National Wool Growers Association, Inc. ("NWGA"), Salt Lake City, Utah. Complying with the filing requirements of 19 CFR 355.26, the petition alleges that New Zealand is not a "country under the Agreement" within the meaning of section 701(b) of the Act (19 U.S.C. 1671).

Scope of Investigation

The merchandise covered by this investigation is lamb meat provided for in item number 106.30 of the Tariff Schedules of the United States.

The petition alleges that the Government of New Zealand provides the following subsidies to its domestic producers and exporters of lamb meat:

1. Tax Incentives

a) Export Performance Tax Incentive Scheme (Section 156A Income Tax Amendment Act of 1979)

b) Export Market Development Incentive (Section 154 of New Zealand Income Tax Act of 1976, as amended)

c) Increased Export of Goods (Section 156 of the New Zealand Income Tax Act of 1976, as amended)

2. Production Assistance

a) Fertilizer Price Subsidy (Ministry of Agriculture and Fisheries)

b) Fertillizer Aerial Spreading Bounty (Ministry of Agriculture and Fisheries)

c) Transport Subsidies on Fertilizer (Ministry of Agriculture and Fisheries)

d) 'Nil' Livestock Values for Taxation

e) Meat Export Prices Act 1955, consolidated and amended by the Meat Export Prices Act 1976 (Meat Export Prices Committee)

3. Export Promotional Assistance

a) Meat Export Control Act of 1921-22, as amended, 1956, 1959, 1960, 1962, 1965, 1966, 1969, 1970, and 1978 (New Zealand Meat-Producers Board)

b) Meat Export Control Amendment Act 1966 Amendment to the Meat Export Control Act of 1921-22 (Market Development Committee)

c) Assistance with respect to Exchange Rates

d) Meat Export Development Company (N.Z.) Limited

4. Preferred Loans and Loan Guarantees

a) Livestock Incentive Scheme
b) Interest-free Suspensory Loans (New Zealand Rural Banking and Finance Corporation)
c) Export Guarantee Act 1964 (Export Guarantee office)

The petition requests that we initiate a full investigation of all the programs listed above as well as any additional bounties or grants discovered during the investigation.

After conducting a summary review of the petition we have found that its information reasonably supports its allegations. Therefore, in accordance with section 702(b) of the Act, we are initiating a countervailing duty investigation to determine whether the Government of New Zealand is giving its producers and exporters of lamb meat certain benefits that are bounties or grants within the meaning of section 771(5) of the Act. If our investigation proceeds normally, we will announce our preliminary determination by July 17, 1981

B. Waring Partridge,

Acting Deputy Assistant Secretary for Import Administration.

May 13, 1981.

[FR Doc. 81-14857 Filed 5-15-81; 8:45 am]
BILLING CODE 3510-25-M

International Trade Administration

Lamb Meat From New Zealand; Initiation of Countervailing Duty Investigation

AGENCY: International Trade Administration, Commerce.

ACTION: Initiation of countervailing duty investigation.

SUMMARY: We are initiating a countervailing duty investigation to determine whether New Zealand is subsidizing its producers and exporters of lamb meat. We are terminating under section 303 of the Tariff Act of 1930 as amended and initiating under Title VII of the Act.

EFFECTIVE DATE: September 24, 1981.

FOR FURTHER INFORMATION CONTACT: Roland Macdonald, Import Administration, International Trade Administration, Department of Commerce, Washington, D.C. 20230, (202) 377-1279.

SUPPLEMENTARY INFORMATION:

Initiation of Investigation

On April 23, 1981, we received a petition in proper form from the National Wool Growers Association of Salt Lake City, Utah, filed on behalf of the U.S. industry producing lamb meat. They were joined in this petition by the National Lamb Feeders Association on May 12, 1981. The petition alleged that the New Zealand government grants subsidies to its producers and exporters of lamb meat.

After reviewing the petition, we decided that it contained sufficient grounds to initiate a countervailing duty investigation under section 303 of the Tariff Act of 1930, as amended. Therefore, on May 18, 1981, we announced the initiation, stating that we would issue a preliminary determination by July 17, 1981, if our investigation proceeded normally (46 FR 27151). We presented a questionnaire concerning the allegations to the government of New Zealand and The Meat Producers Board. On July 19, 1981, we postponed our preliminary determination from July 17, 1981, to September 19, 1981, because

the case was found to be "extraordinarily complicated" (46 FR 34357).

On September 17, 1981, the U.S. Trade Representative Office announced that New Zealand was a "country under the Agreement," as set out in section 701(b) of the Act (46 FR 46263). As a result Title VII of the Act became applicable to the then pending countervailing duty investigation. According to section 102 of the Act, once Title VII becomes applicable, any pending investigation under section 303 of the Act must terminate. Where an initiation, but not a preliminary determination, has been made under section 303, the case is to be treated as if it were initiated under section 702 the day Title VII first applied to that country. Therefore, we are terminating the investigation we initiated on May 18, 1981, and are initiating today another countervailing duty investigation, which is to be effective September 17, 1981.

Scope of the Investigation

The merchandise covered by this investigation is lamb meat provided for in item 106.30 of the Tariff Schedules of the United States. Lamb meat comes from a sheep that is usually less than a year old, weighs about 110 pounds, and has not cut its permanent incisors.

In our present investigation we expect to cover the same programs cited in original initiation notice (46 FR 27151).

Notification to ITC

Pursuant to section 702(d) of the Tariff Act we are notifying the U.S. International Trade Commission (ITC) and making available to it information relating to the matter under investigation. We will make available to the ITC all nonprivileged and nonconfidential information. We will also allow the ITC access to all privileged and confidential information in our files, provided it confirms that it will not disclose such information, either publicly or under an administrative protective order, without the written consent of the Deputy Assistant Secretary for Import Administration.

The ITC has 45 days after it receives notice from us to determine whether or not there is a reasonable indication that imports of lamb meat from New Zealand are likely to materially injure a U.S. industry. If the ITC's determination is negative, we will terminate this investigation.

If its determination is affirmative, we will issue a preliminary determination by September 11, 1981. In view of the present status of this investigation and the analysis already completed in this case, however, we expect to issue a preliminary determination in advance of that date.

Gary N. Horlick,

Deputy Assistant Secretary for Import Administration.

September 18, 1981.

[FR Doc. 81-27754 Filed 9-23-81; 8:45 am]

BILLING CODE 3510-25-M