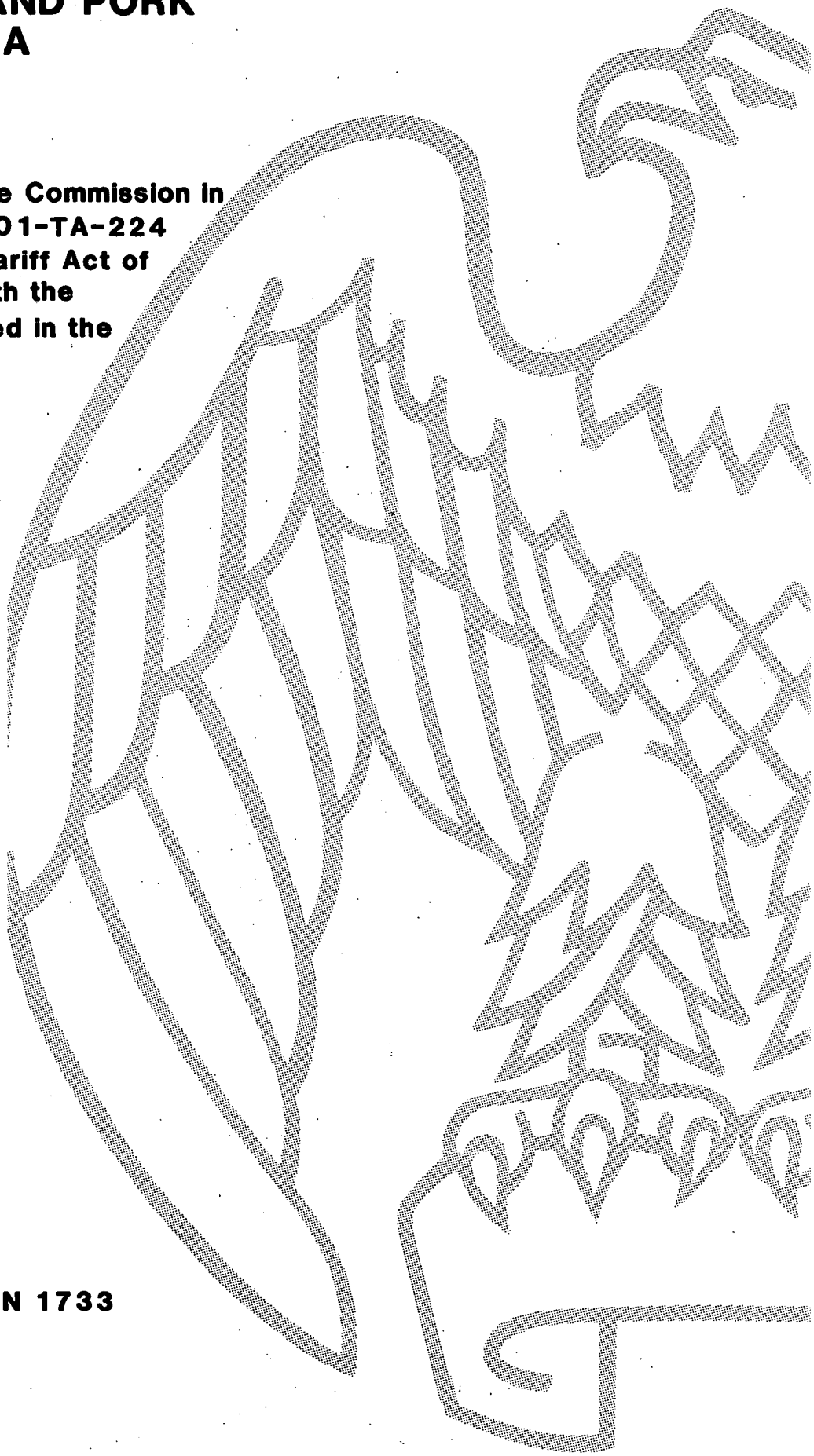
LIVE SWINE AND PORK FROM CANADA

Determination of the Commission in Investigation No. 701-TA-224 (Final) Under the Tariff Act of 1930, Together With the Information Obtained in the Investigation



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UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Paula Stern, Chairwoman
Susan W. Liebeler, Vice Chairman
Alfred E. Eckes
Seeley G. Lodwick
David B. Rohr

This report was prepared by:

Lawrence Rausch, Investigator
David Ludwick, Commodity Analyst
John Christ, Economist
Walker A. Pollard, Economist
Dwight Reeves, Financial Analyst
Brenda A. Jacobs, Attorney
Randi S. Field, Attorney
Lynn Featherstone, Supervisory Investigator

Address all communications to
Kenneth R. Mason, Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

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Note.--Information which would reveal confidential operations of individual concerns may not be published and therefore has been deleted from this report. Such deletions are indicated by asterisks.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC

Investigation No. 701-TA-224 (Final)

LIVE SWINE AND PORK FROM CANADA

Determination

On the basis of the record 1/ developed in the subject investigation, the Commission determines, 2/ pursuant to section 705(b) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)), that an industry in the United States is materially injured by reason of imports from Canada of live swine, 3/ provided for in item 100.86 of the Tariff Schedules of the United States, and that an industry in the United States is not materially injured or threatened with material injury, and that the establishment of an industry in the United States is not materially retarded, by reason of imports from Canada of fresh, chilled, or frozen pork, 4/ provided for in item 106.40 of the Tariff Schedules of the United States, which have been found by the Department of Commerce to be subsidized by the Government of Canada.

Background

The Commission instituted this investigation effective April 3, 1985, following a preliminary determination by the Department of Commerce that

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

2/ Chairwoman Stern and Commissioner Lodwick did not participate.

3/ Vice Chairman Liebeler determines that an industry in the United States is not materially injured, or threatened with material injury, and that the establishment of an industry in the United States is not materially retarded by reason of imports of live swine which are subsidized by the government of Canada.

4/ Commissioner Eckes determines that an industry in the United States is threatened with material injury by reason of imports of fresh, chilled, or frozen pork which are subsidized by the government of Canada.

imports of live swine and fresh, chilled, or frozen pork from Canada were being subsidized within the meaning of section 701 of the Act (19 U.S.C. § 1671). Notice of the institution of the Commission's investigation and of a public hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the Federal Register of April 24, 1985 (50 FR 16175). The hearing was held in Washington, DC, on June 25, 1985, and all persons who requested the opportunity were permitted to appear in person or by counsel.

VIEWS OF THE COMMISSION 1/

We determine that an industry in the United States is materially injured by reason of imports of live swine which are subsidized by the government of Canada. 2/ We determine that an industry in the United States is not materially injured or threatened with material injury, and that the establishment of an industry is not materially retarded, 3/ by reason of imports of fresh, chilled, or frozen pork which are subsidized by the government of Canada. 4/

Definition of the domestic industry

As a threshold matter, we are required to define the scope of the domestic industry to be examined in this countervailing duty investigation. The term "industry" is statutorily defined in section 771(4)(A) 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." 5/ "Like product," in turn, is defined in section 771(10) as a "product which is like, or in the absence of

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1/ Chairwoman Stern and Commissioner Lodwick did not participate in this investigation.

2/ Vice Chairman Liebeler determines that an industry in the United States is not materially injured, or threatened with material injury, and that the establishment of an industry in the United States is not materially retarded, by reason of imports of live swine which are subsidized by the government of Canada. See Additional and Dissenting Views of Vice Chairman Liebeler at 19.

3/ Since there is an established domestic industry, "material retardation" was not raised as an issue in this investigation and will not be discussed further.

4/ Commissioner Eckes determines that an industry in the United States is threatened with material injury by reason of imports of fresh, chilled, or frozen pork which are subsidized by the government of Canada. See Additional Views of Commissioner Eckes at 25.

5/ 19 U.S.C. § 1677(4)(A).

like, most similar in characteristics and uses with, the article subject to an investigation . . . ." 6/

The imported products in this investigation are live swine and fresh, chilled, or frozen pork. In the preliminary investigation, the Commission arrived at some tentative conclusions regarding the definition of the like product and domestic industry. In this final investigation, we have reexamined these conclusions in light of additional information. We determine that there are two like products: (1) live swine and (2) fresh, chilled, or frozen pork.

Our determination that live swine and fresh, chilled, or frozen pork are two like products is based upon a number of factors. Obviously, the characteristics of live swine are different than fresh, chilled, or frozen pork. In addition, the products have different uses. Swine are produced by growers for the purpose of being sold to, and slaughtered by, the packers. Unprocessed pork is sold by packers to remanufacturers for further processing into food and various by-products or can be sold directly to end users.

Further, the two are produced in very different facilities: one involves facilities for raising hogs; the other requires facilities for slaughtering hogs. To be converted into pork, live swine must be subjected to the slaughtering process during which they are stunned, bled, scalded, dehaired, decapitated, and eviscerated. These packing operations add substantial value by transforming the live animal into pork. 7/ The products also sell to different markets; packers buy swine, while processors or retailers buy pork.

6/ 19 U.S.C. § 1677(10).
7/ Livestock and Poultry Outlook and Situation Report at 34 (May 1985).

The relevant domestic industry which produces live swine consists of hog growers. 8/ The domestic industry which produces pork is, at least, the pork packers. In this investigation, we must also determine whether the relevant domestic unprocessed pork industry includes hog growers as well as pork packers. In some previous agricultural investigations, the Commission has included both the growers of the raw agricultural product and the producers of the processed product in a single industry when certain criteria are met. 9/

As discussed in the Table Wines case, 10/ the Commission has exercised discretion in defining an agricultural industry, relying on the following factors. First, the Commission has considered the extent to which the raw

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8/ The argument has been raised that because Canadian hogs are leaner and higher in quality than U.S. hogs, the imported and domestic products are not identical. Respondents, the Canadian Pork Council (CPC), contended that these differences between Canadian hogs and U.S. hogs are such to render them not like products. See Transcript of the hearing (Tr.) at 120-21. The statute, however, does not require the "like product" to be identical to the article subject to investigation. Any alleged quality differences between the imported and domestic hogs are not sufficient to make them unlike. See Cotton Shop Towels from Pakistan, Inv. No. 701-TA-202 (Final), USITC Pub. 1490 at 4 (1984). We, therefore, determine that the domestic hogs are like the imported hogs.

9/ See, e.g., Certain Red Raspberries from Canada (Raspberries), Inv. No. 731-TA-196 (Preliminary), USITC Pub. 1565 (1984) and 1707 (Final) (1985); Lamb Meat from New Zealand (Lamb Meat), Inv. No. 701-TA-80 (Preliminary), USITC Pub. 1191 (1981), and Invs. Nos. 701-TA-214 and 731-TA-184 (Preliminary), USITC Pub. 1534 (1984); Frozen Concentrated Orange Juice from Brazil (Orange Juice), Inv. No. 701-TA-84 (Preliminary), USITC Pub. 1283 (1982) and 1406 (Final) (1983); and Sugar from the European Community (Sugar), Inv. No. 104-TAA-7, USITC Pub. 1247 (1981). See also S. Rep. No. 249, 96th Cong., 1st Sess. 88 (1979).

The Commission has not included growers within the definition of the industry producing the processed product in the following cases: Certain Table Wines from France and Italy, Invs. Nos. 701-TA-210-211 (Preliminary), USITC Pub. 1502 (1984); Frozen French Fries from Canada, Inv. No. 731-TA-3 (Preliminary), USITC Pub. 1259 (1982); Instant Potato Granules from Canada, Inv. No. AA1921-97, USITC Pub. 509 (1972); Canned Hams and Shoulders from Belgium, Denmark, the Federal Republic of Germany, France, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom, Invs. Nos. 701-TA-31-39 (Final), USITC Pub. 1082 (1980).

10/ Certain Table Wines from France and Italy, Invs. Nos. 701-TA-210-211 (Preliminary), USITC Pub. 1502 (1984).

product enters into a single line of production resulting in the processed product. Second, the Commission has examined the degree of economic integration between growers and packers, often looking at the legal relationship between the two groups. For example, if there is substantial interlocking ownership, if there are shared revenues, or if, contractually, the prices paid to producers directly control the prices to growers, then both groups can be more certainly affected in a like manner.

Initially, we note that the "single, continuous line of production" standard has been met in that the raw product is primarily sold in only one market, and the primary purpose of raising slaughter hogs is to produce pork meat. 11/ The requisite integration of economic interest in this investigation, however, is lacking. Less than 5 percent of packing facilities are owned by the growers. 12/ Virtually none of the grower facilities are

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11/ The by-products of the slaughtering operation (e.g., pig skins, blood, and certain organs), which account for a very small share of the value of the hog, are sold for the manufacture of products such as pig skin leather, blood meal, and pharmaceuticals. The remainder of the swine--the "carcass"--is divided into the various "primal cuts" of pork (e.g., ham, bellies, etc.) and the various sundries (e.g., liver, kidneys, etc.). Discussions with David Ludwick, Livestock Commodity Analyst at the U.S.I.T.C.; Pre-Hearing Memorandum of the Canadian Meat Council at 3.

12/ In contrast, in Orange Juice, infra n.14, 80 percent of all the oranges used to produce frozen concentrated juice were either processed by grower-owned, non-profit cooperatives or under participation contracts. In Lamb Meat, two major packers were owned by feedlot owners, one packer was owned by growers, and two packing companies were fully integrated. These five packers accounted for more than 50 percent of the domestic packer capacity. Further, a number of commercial-scale feedlots were owned by growers. Inv. No. 701-TA-80 (Preliminary), USITC Pub. 1191 at 8 (1981). In Raspberries, the Commission found that 35 percent of the domestic raspberry crop was grown by growers who maintained bulk packing facilities and that the majority of bulk packers in Washington and Oregon were grower-packers. Inv. No. 731-TA-196 (Preliminary), USITC Pub. 1565 at 7-8 (1984).

owned by packers. 13/ Further, the petitioners have conceded that the prices for hogs are not linked by contract to the prices received by the packers. 14/

While the absence of a legal relationship between growers and packers is not determinative of the absence of economic integration, we are unpersuaded by the petitioners' contention that an integration of economic interest can be reflected solely by a high price correlation between live swine and fresh, chilled, or frozen pork. 15/ We, therefore, cannot find that growers should be included into a single industry with packers producing pork. 16/

Accordingly, we determine that there are two like products: a like product live swine and a like product fresh, chilled, or frozen pork. We also determine that the two relevant domestic industries are defined as follows: a domestic industry consisting of hog growers and a domestic industry consisting exclusively of pork packers.

Condition of the domestic industries

In assessing the condition of the domestic industry, the Commission considers, among other factors, the trends in production, capacity, shipments, employment, productivity, and profits. In this investigation, the Commission

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13/ The Packers and Stockyards Statistical Resume at 27 (Mar. 1982) shows that swine feeding activities by packers accounted for less than 60,000 animals in 1980, the last year for which such data were collected.

14/ Cf. Frozen Concentrated Orange Juice from Brazil, Inv. No. 701-TA-84 (Preliminary), USITC Pub. 1283 (1982) and 1406 (Final) (1983), in which 80 percent of all the oranges used to produce frozen concentrated juice were either processed by grower-owned, non-profit cooperatives or by independent processing plants under "participation plans" whereby the price paid to the grower is determined by the final selling price of the concentrate. Only a small percentage of growers were paid on a cash basis.

15/ Pre-Hearing Brief of National Pork Producers Council at 9; Tr. at 74-75. Even if this correlation were to exist at any one point in time, it could change for any number of reasons (e.g., changes in non-hog costs of production for packers, pork marketing decisions, etc.).

16/ See Additional and Dissenting Views of Vice Chairman Liebeler at 19.

considered such information concerning the condition of the domestic industries for the period covering 1981 to the first quarter of 1985.

Live Swine 17/ 18/

Due to the nature of this industry, we relied primarily on U.S. Department of Agriculture (U.S.D.A.) data. 19/ 20/ U.S. production of live swine decreased by 9 percent to 85 million head from 1981 to 1982 and then increased by 9 percent to 93 million head in 1983. 21/ Swine production declined by 7 percent in 1984 and then increased slightly in January-March 1985 compared with production in the corresponding period in 1984.

17/ Due to the nature of the swine growing industry, there are no discernible trends regarding capacity and employment. The Commission determined that there is no meaningful measure of capacity or capacity utilization for swine growers. Many farmers view their female breeding animals as their "factories". Female animals are not "idled"; they are either bred to produce pigs or sold for slaughter. In addition, baby pigs, once farrowed, cannot be held; they are sold or raised to slaughter weight. Inasmuch as a swine can be raised in open fields and supplied with a wide variety of feeds, U.S. growers have nearly unlimited capacity to raise swine. Conditions of Competition Between the U.S. and Canadian Live Swine and Pork Industries, Inv. No. 332-186, USITC Pub. 1615 at 13, 17, and ix (1984); The U.S. Pork Sector: Changing Structure and Organization at 18-22 (1985). Further, most U.S. swine growing enterprises are family-owned farms that, typically, raise more than one agricultural product (including feed in conjunction with the swine growing operations). Other agricultural products, including other species of farm animals, are raised independent of swine growing. Consequently, there is no uniform, meaningful way for growers to allocate their labor and management to swine growing. Discussions with David Ludwick, Livestock Commodity Analyst at the U.S.I.T.C.

18/ Vice Chairman Liebeler does not interpret the data as being indicative of injury. Nonetheless, assuming arguendo, that the domestic industry is materially injured, her negative determination is based upon a finding that there is not a sufficient causal link between such injury and the subject imports. See Additional and Dissenting Views of Vice Chairman Liebeler at 19.

19/ In 1984, there were 431,680 enterprises producing swine in the United States. Report of the Commission (Report) at A-11. Only 6 percent of these enterprises maintain 500 or more head of swine during the year. Id. at A-13. Due to the lack of concentration in the industry and the availability of reliable secondary data from the U.S.D.A., we relied primarily upon the U.S.D.A. data. Id. at A-21.

20/ Commissioner Rohr also notes that such reliance was made necessary by the low response rate to the Commission's own questionnaires.

21/ Report at A-22, Table 10.

Domestic shipments of live swine fluctuated downward during 1981-84. 22/ 23/ Shipments fell by 10 percent from 91 million head in 1981 to 82 million head in 1982, increased by 6 percent to 87 million head in 1983, and decreased by 4 percent to 84 million head in 1984. In January-March 1985, shipments declined by 6 percent compared with those in the corresponding period of 1984. 24/

The financial experience of the swine growers has reflected significant declines in profitability. After experiencing a profitable year in 1982 during which average profit margins of farrow-to-finish growers were $24.08 per hog, average margins declined to losses of $2.62 per hog in 1983 and $4.45 in 1984. 25/ Net profit margins to U.S feeders 26/ averaged $2.14 per hundredweight in 1982 and then declined irregularly to losses of $5.52 per hundredweight in 1983 and $4.44 in 1984. 27/ Information also was obtained from the questionnaire responses of a small number of growers. 28/ These data indicate that the growers were profitable in 1982, profitability declined in 1983, and the growers showed losses in 1984. 29/ 30/ Although the financial

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22/ Id.

23/ Production figures represent pig births and include both swine that may not be ready for slaughter and swine that do not survive to slaughter weight. Additionally, these production figures do not reflect changes in inventories. Accordingly, domestic shipments, which represent swine that are sold for slaughter, are a more reliable indication than production data in this investigation.

24/ U.S. exports of live swine account for a very small share of U.S. production. Report at A-22-A-23, Table 10. As a rule, these hogs are not exported for slaughter in the receiving country but, rather, for breeding stock.

25/ Id. at A-29, Table 19.

26/ Pigs are raised to a weight of about 40 pounds in about two months and are then referred to as feeder pigs. The U.S. feeder operations raise these feeder pigs to a slaughter weight of about 220 pounds. Id. at A-7.

27/ Id. at A-30, Table 20.

28/ Commissioner Rohr notes that, due to the low response rate, he did not rely upon this information in reaching his decision.

29/ Report at Appendix E.

30/ Vice Chairman Liebeler notes that 1982 was an unusually good year for swine growers. Thus, it is misleading to base a finding of injury by comparing the current state of the industry to the condition it was in in 1982.

data received from the growers are not necessarily representative of all growers, we note that the growers' responses tracked the published data. 31/

On the basis of our analysis of all these indicators, we conclude that the domestic swine industry is experiencing material injury.

Fresh, chilled, or frozen pork 32/

Pork production increased steadily by 12 percent from 1982 to 1983 and increased by another 2 percent in 1984, reaching 6.9 billion pounds. Production increased by 5 percent during January-March 1985 when compared to the corresponding period in 1984. 33/

Capacity to produce pork increased faster than production from 1982 to 1983 and, consequently, capacity utilization declined irregularly from 85.1 percent to 71.6 percent, respectively. Total capacity to produce pork changed slightly during 1984-March 1985. Rising production in 1984 and in the first quarter of 1985, therefore, yielded a capacity utilization rate equal to 73.0 percent in 1984 and 75.2 percent during January-March 1985. 34/ Had capacity remained stable during the period of investigation, capacity utilization would have risen.

Domestic shipments of U.S.-produced pork fluctuated during the period of investigation. 35/ Shipments declined by 10 percent from 1981 to 1982, increased by 7 percent in 1983, and then declined by 2 percent in 1984.

31/ See supra nn.25 and 27.

32/ Vice Chairman Liebeler does not interpret the data as being indicative of injury. Nonetheless, assuming arguendo, that the domestic industry is materially injured, her negative determination is based upon a finding that there is not a sufficient causal link between such injury and the subject imports.

33/ Report at A-23, Table 11.

34/ Id.

35/ Id. at A-24, Table 12.

Shipments declined by 4 percent in January-March 1985 compared with shipments in the corresponding period of 1984. Exports of pork fluctuated downward during January 1981-March 1985 and have accounted for less than 1 percent of total shipments since 1982.

The average number of production and related workers producing pork declined irregularly during 1982-84. 36/ After increasing by 3 percent from 1982 to 1983, the average number of production workers fell by 12 percent in 1984. Hours worked by these workers decreased by 1 percent from 1982 to 1983 and by 6 percent in 1984. Employment rose slightly during the first quarter of 1985 as compared with the corresponding period in 1984.

Labor productivity increased from 234 pounds per man hour in 1982 to 287 pounds per man hour in 1984. 37/ The wage rate for production and related workers declined sharply during 1982-84 from $10.17 in 1982 to $8.27 in 1984. As a result, unit labor costs decreased from 5.3¢ per pound in 1982 to 3.5¢ per pound in 1984.

The financial data furnished by the packers reflected declines in profitability. 38/ Operating income as a share of net sales was 0.4 percent in 1982. Operating income as a share of net sales then declined to negative margins of 0.2 percent in 1983 and 1984.

The condition of the industry during the period of investigation has deteriorated as evidenced by the industry's declining financial situation. Even though production has gone up, the existence of over capacity in the industry has resulted in a declining capacity utilization rate. Despite rising productivity and lower wage rates, the industry remains unprofitable.

36/ Id. at A-25, Table 14.
37/ Id. at A-26, Table 15.
38/ Id. at A-33, Table 22.

We determine, based upon all the indicators discussed above, that this industry is experiencing material injury. 39/

Material injury by reason of the subsidized imports from Canada--live swine

Under section 705(b) of the Tariff Act of 1930, as amended, the Commission is required to determine whether an industry in the United States is materially injured or threatened with material injury by reason of imports of merchandise with respect to which the Department of Commerce (Commerce) has determined that subsidies are granted. 40/ In reaching its decision as to whether material injury is by reason of the imports under investigation, the Commission considers, among other factors, the volume of imports, the effect of imports on prices in the United States for the like product, and the impact of such imports on the relevant domestic industry. 41/

Our consideration of the factors and conditions of trade in the live swine industry leads us to the determination that imports of live swine from Canada have caused material injury to the domestic industry.

Almost all U.S. imports of swine originate from Canada. 42/ U.S. imports of Canadian swine more than doubled from 1981 to 1982, increased by 52 percent in 1983, and almost tripled from 1983 to 1984. During January-March 1985, imports of Canadian swine increased by 97 percent compared with the corresponding period in 1984.

Market penetration by imports of Canadian swine increased steadily from 0.2 percent in 1981 to 1.6 percent in 1984. 43/ Canadian swine imports accounted for 2.6 percent of apparent U.S consumption in January-March 1985.

39/ Commissioner Eckes determines that the domestic industry is threatened with material injury.
40/ 19 U.S.C. § 1671(b)(1).
41/ 19 U.S.C. § 1677(7)(C).
42/ Report at A-37, Table 25.
43/ Id. at A-39, Table 27.

Another factor in our determination is the effect that imports of Canadian swine had on domestic prices. 44/ 45/ The price of live swine products is very sensitive to changes in supply. We used elasticity estimates submitted by the petitioners and the respondents to estimate the effect on swine prices of changes in the Canadian share of the integrated U.S./Canadian live swine market. 46/ The results of these estimates show that the Canadian share fell in 1983 and caused swine prices to increase by approximately $.19 to $.38 per hundredweight. Further, the Canadian share rose in 1984 and caused swine prices to decline by approximately $.64 to $1.27 per hundredweight. Based on U.S.D.A. forecasts, the Commission projected an increase in the Canadian market share of live swine for 1985 and resulting lower prices of approximately $.18 to $.36 per hundredweight. 47/

Using these same elasticities, we also examined the aggregate impact on gross revenues of all U.S. growers as a result of changes in the Canadian share of the live swine market. 48/ Gross revenues were higher by approximately $36 million to $73 million in 1983. Gross revenues were lower by approximately $118 million to $234 million in 1984. For 1985, we projected lower gross revenues by approximately $32 million to $64 million.

44/ Report at A-44-A-45, Table 29.

45/ Commissioner Eckes notes that at the public hearing expert witnesses representing both petitioners and respondents testified that increased Canadian supplies helped depress U.S. swine prices. The expert witnesses disagreed principally about the degree of price impact. Tr. at 55-56 and 169-71.

46/ A range of elasticity estimates was used because the complexity of economic relationships and the problems of econometric estimation make it impossible to obtain a precise estimate. The range presented is likely to include the actual elasticity.

47/ Office of Economics memorandum EC-I-266 at 3 (July 24, 1985).

48/ Vice Chairman Liebeler does not view a loss of $273 per year per farmer as constituting material injury by reason of the subject imports. See Additional and Dissenting Views of Vice Chairman Liebeler at 22-23.

The published U.S. price for barrows and gilts averaged $55 per hundredweight in 1982, dropped to $48 per hundredweight in 1983, and then rose slightly to $49 per hundredweight in 1984. The published U.S. price declined further averaging $45 per hundredweight during the first quarter of 1985 compared with $48 during the corresponding period in 1984. 49/

The rapid increase in the Canadian share of the market at subsidized prices has had a disruptive effect on the U.S. market that, combined with the depressing effect that this increased share had on swine prices, leads us to conclude that the domestic industry has been materially injured by reason of the subject imports.

No material injury by reason of subsidized imports from Canada--pork

Our consideration of the factors and conditions of trade in the fresh, chilled, or frozen pork industry leads us to the conclusion that imports of fresh, chilled, or frozen pork have not caused injury to the domestic industry.

Imports of fresh, chilled, or frozen pork from Canada increased from 192 million pounds in 1981 to 269 million pounds in 1982 before declining to 266 million pounds in 1983. 50/ Imports then rose to 345 million pounds in 1984. These imports increased to 108 million pounds in January-March 1985 compared with 82 million pounds during the corresponding period in 1984.

Imports of fresh, chilled, or frozen pork from Canada captured 1.9 percent of the U.S. market in 1982, dropped to 1.7 percent in 1983, then

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49/ Commissioner Rohr also notes that the Commission obtained comparative pricing data from Canada. These data indicate to him that Canadian swine have frequently undersold the U.S. product. He believes the underselling to be significant in the context of his analysis of this industry. Commissioner Rohr also notes that the decline in U.S. prices generally occurred at the same time that Canadian imports rose.

50/ Report at A-37, Table 25.

increased to 2.2 percent in 1984. 51/ Canadian imports' share increased to 2.8 percent in January-March 1985.

Although imports of fresh, chilled, or frozen pork from Canada increased in volume during the period of investigation, the import penetration ratios remained low. The domestic industry retained virtually 97 percent of U.S consumption. Additionally, there was only one instance of a confirmed lost sale. 52/ 53/

We reviewed the pricing data and found no discernible trends regarding the effect of the subject imports on U.S. prices of fresh, chilled, or frozen pork. 54/ 55/ We stress also that the price of U.S. pork generally rose at the same time that imports of fresh, chilled, or frozen pork from Canada were increasing. 56/

No threat of material injury by reason of subsidized imports from Canada--pork

Section 612 of the Tariff and Trade Act of 1984 (the 1984 Act) adds a new subparagraph 771(7)(F) which directs the Commission to consider a number of economic factors in assessing threat of material injury. Such factors

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51/ Id. at A-40, Table 28.
52/ Office of Economics memorandum EC-I-267 (July 24, 1985).
53/ Vice Chairman Liebeler does not consider the presence or absence of confirmed lost sales determinative or persuasive on the question of a causal link between subsidized imports and material injury to the domestic industry. Typically, an import that is subsidized affects the domestic industry the same way regardless of whether it is a confirmed lost sale. Although it might be appropriate to inquire whether a sale by a respondent has been in lieu of sales by the domestic industry or, alternatively, at the expense of imports from other countries, Commission information on lost sales is not capable of providing an answer to such a question because the data are based on a very small and biased sample.
54/ Report at A-51-A-52, Tables 32-33.
55/ Commissioner Rohr notes that the pattern with respect to underselling is substantially different from that for live swine. The pattern of pricing reflects, in fact, higher prices in most instances for the Canadian product.
56/ Report at A-51-A-52, Tables 32-33.

include: (1) the nature of the subsidy; (2) the ability of the foreign producers to increase the level of exports to the United States and the likelihood they will do so; (3) any rapid increase in penetration of the U.S. market by the imports; (4) the probability that imports of the merchandise will enter the U.S. at prices that will have a depressing or suppressing effect on domestic prices of the merchandise; (5) any substantial increases in inventories of imported merchandise in the United States; (6) underutilized capacity for producing the merchandise in the exporting country; (7) any other demonstrable adverse trends that indicate the probability that importation of the merchandise will be the cause of actual injury; and (8) the potential for product-shifting. 57/ In order to conclude that subsidized imports constitute a threat of material injury to the domestic industry, the Commission must find that the threat is real and imminent, and not based upon a mere possibility that injury might occur at some remote future date. 58/

We initially note that the subsidies which were found to exist by Commerce are not export subsidies inconsistent with the Subsidies Code. Rather, they are purely domestic subsidies.

Canadian pork production fluctuated during the period of investigation. Production declined from 1.9 billion pounds in 1980 to 1.8 billion pounds in 1982. Production then increased in 1983 and rose again the following year reaching 1.9 billion pounds in 1984 before declining slightly during the first quarter of 1985. Although production has recently increased, we note that the increase has only resulted in a return to 1980 levels. Canadian consumption decreased only slightly from 1.7 billion pounds in 1980 to 1.5 billion pounds

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57/ 19 U.S.C. § 1677(7)(F).
58/ S. Rep. No. 249, 96th Cong., 1st Sess. 89 (1979).

in 1984. 59/ Further, Canadian pork exports increased by 45 percent between 1981 and 1982, decreased by 4 percent in 1983, and then increased by 11 percent in 1984. In our view, these figures do not indicate that imports of fresh, chilled, or frozen pork from Canada pose a threat to the domestic industry.

As noted above, although the volume of imports increased during the period of investigation, penetration ratios remained low. The domestic industry retained virtually 97 percent of U.S. consumption. 60/

Data regarding U.S. inventories of Canadian pork are confidential and, therefore, cannot be disclosed. Nonetheless, we note that there were virtually no inventories. 61/

Respondents in this investigation have conceded that the Canadian industry has adequate capacity to slaughter Canadian produced swine. 62/ There was, however, no indication in this investigation that Canadian production capacity has increased. To the contrary, we note that there has been a decline in breeding potential of the Canadian hog industry. 63/ Canadian inventory of live swine for breeding declined by 2 percent from April 1984 to April 1985. This resultant decline in Canadian swine production will likely reduce pork exports. 64/

59/ Report at A-18, Table 7.

60/ Commissioner Rohr did not find that imports were entering the United States at prices that have a depressing effect on the domestic prices. To the contrary, the data indicate that the Canadian product generally was not entering the United States at prices which undersold the domestic product.

61/ Id. at A-37.

62/ Memorandum to the File prepared by David E. Ludwick.

63/ Tr. at 130.

64/ Pre-Hearing Memorandum of the Canadian Meat Council at 37; Post-hearing Memorandum of the Canadian Meat Council at 9. We also note that the number of swine farms in Canada is decreasing. Pre-Hearing Memorandum of the Canadian Pork Council at 30-46; Post-Hearing Memorandum of the Canadian Pork Council at at 6.

Finally, complainants made the argument that imposition of countervailing duties on live swine will lead to attempts to circumvent these duties through decreased imports of live swine and increased imports of fresh, chilled, or frozen pork. 65/ This may be true. A threat, however, must be "real" and "imminent." In this case, there are too many uncertain factors for us to speculate on the linkage between imports of the two products. For example, we note that live swine are being imported for slaughter by U.S. packers. The incentive for such packers to import the already slaughtered animal is, at best, marginal. The traditional importers of live swine, then, are not likely to be the new importers of unprocessed pork. Further, as a practical matter, the means for the shipment of live swine are not readily usable for the transport of unprocessed pork. Therefore, for substantial diversion to occur, new channels of transportation, distribution, and sales would have to be put into place. The statute does not permit us to speculate whether such developments will occur. A finding of threat is, therefore, too speculative for us to make at this time.

65/ Vice Chairman Liebeler does not reach this question having simultaneously made negative determinations with respect to both industries.

ADDITIONAL AND DISSENTING VIEWS

OF VICE CHAIRMAN SUSAN W. LIEBELER

Domestic Industry Producing Fresh, Chilled, and Frozen Pork

I am uncomfortable with the test used by the Commission in some agricultural cases to define domestic industry. In some agricultural cases, the Commission has used a two-part test to determine whether the relevant domestic industry includes the growers of the unprocessed agricultural product, in addition to the producers of the processed product. According to this test, the Commission will include the growers in the domestic industry if there is both a single, continuous line of production from the unprocessed agricultural product to the processed product, and an economic integration of interests between the growers and the processors. An argument can be made that neither the statute, nor the legislative history, allows the Commission to define domestic industry more expansively in agricultural cases. In this case, a strict reading of the statute could require that only the packers are in the domestic pork industry, because they are the only ones to "produce" the like product. Support for this argument can be found in the Conference Report on the Trade and Tariff Act of 1984, which reads in pertinent part:

> The term "industry" for purposes of CVD and AD investigations means the domestic producers of a "like product", and the term "like product" has been defined and interpreted to include only those products which are identical or most similar in their characteristics to the imported article. Accordingly, producers of products being incorporated into a processed or manufactured article (i.e., intermediate goods or component parts) are generally not included in the scope of the domestic industry that the ITC analyzes for the purpose of determining injury.[1]

The Commission's two-part test in agricultural cases would appear to be inconsistent with this legislative history. The first prong, however, makes some economic sense. If almost all slaughter hogs raised are turned into pork, then there is certainly a sense in which the growers are in the pork producing industry, in that pork is the sole or primary end product of their efforts. Furthermore, if almost all swine eventually becomes pork, then a priori there is no basis to presume that any unfair trade practices would have a greater adverse effect on pork packers than on swine growers. Both growers and packers would be adversely affected.[2] It does not follow that if only some of the unprocessed product became the final processed product that growers would not be adversly affected. Rather the smaller the share of the producers' product that goes into the final processed product, the smaller will be the grower's share of the injury.

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[1]H.R. Rep. No. 98-1156, 98th Cong., 1st Sess. 188 (1984) (emphasis added).

[2]Any injury from unfair trade practices would be divided among the growers and packers based on their elasticities of supply.

In determining whether there is the requisite degree of economic integration, the Commission looks at the legal relationship between the growers and packers. This makes little economic sense. The share of the injury incurred by the growers will depend on the share of their product that goes into the final product and the relevant elasticities of supply. It has nothing to do with the form of the contract between the growers and the packers. If the packers' supply curve is infinitely elastic, then all of the injury will be passed to the growers. Individuals combine into firms, and firms expand their operations into other areas for a variety of reasons. It is clear that these legal relationships have nothing to do with the incidence of the injury.

Therefore, although I have my doubts about the test the Commission has used to define domestic industry in agricultural cases, I have adopted that test in this case. I have done so because this test is Commission precedent and because it was the basis for the parties' arguments, and because my determination would have been the same had I included swine growers in the domestic fresh, chilled, and frozen pork industry. I do, however, believe that the Commission should consider this question anew in the future, and I look forward to reading parties' briefs on the appropriate definition of the domestic industry.

No Material Injury by Reason of Subsidized Imports of Swine from Canada

I determine that an industry is not materially injured or threatened with material injury by reason of subsidized imports of swine from Canada. My determination is based primarily on the fact that econometric estimates of the effect of subsidized imports of swine from Canada on the prices received by growers suggest that the revenues received by growers were reduced by only about $300 a farmer a year, an amount which is not material.

Both petitioners and respondents have presented evidence on the effect of subsidized imports of swine from Canada on the price received by domestic growers for their swine. Estimates of the effect of the subsidy on the prices received by domestic growers suggest that domestic prices have fallen between 18¢ and 36¢ per hundredweight,[3] which is a reduction of significantly less than 1 percent of the price paid for live

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[3]Office of Economics memorandum EC-I-266 at 3 (July 24, 1985).

swine.[4] This suggests that for 1985 gross revenues will be lower by approximately $32 million to $64 million in 1985. Because there are approximately 400,000 swine growers in the United States, this translates into a loss of gross revenue of between $180 and $360 a farmer a year.

Section 771(7)(A) defines material injury as "harm which is not inconsequential, immaterial, or unimportant."[5] In making its determination the Commission is directed to consider among other factors "the effect of imports of that merchandise on prices in the United States for like products."[6] In doing so the Commission considers whether "the effect of imports of such merchandise otherwise depresses prices to a significant degree or prevents price increases, which otherwise would have occurred, to a significant degree."[7] I do not believe that a decrease in price of less than one percent is a significant depression of price in this investigation. Therefore, I conclude that subsidized imports of swine from Canada are not a cause of material injury to the domestic industry producing swine.

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[4]Views of the Commission, at 13.

[5]19 U.S.C. 1677(7)(A) (1982).

[6]19 U.S.C. 1677(7)(B)(ii) (1982).

[7]19 U.S.C. 1677(7)(C)(II) (1982).

I further determine that a domestic industry is not threatened with material injury by reason of subsidized imports of swine from Canada. In order to conclude that subsidized imports constitute a threat of material injury to the domestic industry, the Commission must find that the threat is real and imminent, and not based upon a mere possibility that injury might occur in the remote future.[8] There has been no substantial change in the stock of Canadian swine in the last few years.[9] In addition, there has been a decline in the breeding potential of the Canadian hog industry.[10] Therefore, I determine that there is no threat of material injury from imports of subsidized swine from Canada.

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[8]S. Rep. No. 249, 96th Cong., 1st Sess. 89 (1979).

[9]Report at Table 6.

[10]Transcript at 130.

DISSENTING VIEWS OF COMMISSIONER ECKES

I respectfully disagree with my colleagues who made a negative determination on imported pork products. In my opinion the evidence for an affirmative determination on pork products is at least as strong and compelling as in the Commission majority's affirmative determination on swine imports from Canada. Moreover, in the absence of a countervailing duty on subsidized pork it is extremely likely that Canadian exporters will boost pork shipments and thus circumvent the countervailing duties imposed on Canadian swine. Consequently, I determine that the domestic pork packing industry is threatened with material injury by reason of imports of fresh, chilled, or frozen pork that are subsidized by the federal and provincial governments of Canada.

In reaching this affirmative determination on the basis of a real and imminent threat of injury, I am sensitive to Section 612 of the Tariff and Trade Act of 1984 (the 1984 Act) which adds a new subparagraph 771(7)(F) directing the Commission to consider a number of economic factors in assessing threat of material injury. Such factors include any increase

in import penetration of the U.S. market, the ability of foreign producers to increase exports to the U.S., and the likelihood they will do so. Another relevant consideration involves any substantial increase in inventories of imported merchandise in the United States. The revised statute also instructs the Commission to consider whether foreign producers may engage in product-shifting to circumvent an existing countervailing duty order.

In the Conference Report the authors of this legislation stated that a:

> determination of threat will require a careful assessment of identifiable current trends and competitive conditions in the marketplace. This will require the ITC to conduct a thorough, practical, and realistic evaluation of how it operates, the role of imports in the market, the rate of increase in unfairly traded imports, and their probable future impact on the industry. This assessment may show, for example, that the volume of unfairly traded imports is increasing and that industry is vulnerable to future harm.

Rep. No. 1156, 98th Cong., 2d Sess. 174-75 (1984). In examining these criteria, I have tried to make a realistic evaluation of marketplace conditions.

Canadian pork imports increasing: During the three-year period for which the Commission collected

data related to this investigation, imports of fresh, chilled, or frozen pork from Canada have increased both absolutely and as a share of domestic consumption. Canadian pork imports increased from 191.7 million pounds in 1981 to 269 million pounds in 1982. Report of the Commission (Report) at A-38, Table 26. Imports declined slightly in 1983 to 266 million pounds when strikes and labor unrest reduced Canada's capacity to slaughter pork. In 1984, imports increased dramatically to 345 million pounds and increased again in the first quarter of 1985 compared to the corresponding period in 1984. Viewed in percentage terms, these imports increased 40 percent from 1981 to 1982, and then declined slightly in 1983. The growth of Canadian pork imports resumed in 1984, rising 30 percent over 1983 levels. This trend continued into 1985, as pork imports climbed 32 percent in January-March 1985 compared with the corresponding period in 1984.

Measured as a share of total U.S. pork consumption, Canadian pork imports took 1.2 percent in 1981, increased to 1.9 percent in 1982 and 1.7 percent in 1983. Report at A-40, Table 28. In 1984, Canadian market share rose again to 2.2 percent. Data for the first quarter of 1985 show that Canadian

pork imports reached 2.8 percent of the U.S. market, up from 2.1 percent in the same period of 1984. These data demonstrate that Canadian pork sales are on a rising trend in the U.S. market.

It is true that the U.S. industry held 97.0 percent of the domestic market as late as 1984, and first quarter 1985 data indicate that the domestic industry retains 95.9 percent market share. I do not consider these facts a compelling argument for dismissing the domestic industry's case in the present investigation. For one thing, nowhere in the statute or legislative history is there any suggestion that the Commission has authority to impose a de minimis market share test in determining whether subsidized imports have caused material injury to the domestic industry. Instead, Congress has instructed the Commission to examine carefully the overall conditions of trade in considering causation. For another reason, such an approach would be incompatible with the Commission majority's approach in holding that swine imports are materially injuring domestic swine growers. Data for swine in the Commission report indicate that the domestic industry had 98.4 percent market share in 1984, and retained 97.4 percent in the first quarter of 1985.

Canada has shown increased ability and need to boost pork exports to the United States. Information obtained in the course of the Commission investigation indicates that Canadian capacity for swine slaughtering and processing could increase without substantial capital investment or reorganization. Most slaughter houses in Canada currently work on a one shift basis, and could expand capacity by speeding up slaughter rates, working overtime or on weekends, or by adding new shifts of workers. Memorandum to the File prepared by Staff Economist. Furthermore, representatives of the Canadian Meat Council have told Commission staff that there is adequate capacity in Canada to slaughter and process all of the swine produced in that country.

In Canada, like the United States, per capita pork consumption has declined as consumer tastes have changed. As a consequence, United States farmers have been producing fewer swine and sending fewer swine to slaughter. The Commission report shows that the inventory of swine for slaughter on March 1, 1985, was 1 percent below the comparable level for 1984 and 12 percent below the 1981 peak. Report at A-13, Table 4. But, while U.S. farmers have reacted to lower prices by gradually reducing their swine

inventories, Canadian growers have retained their inventories. 1/ Commission information indicates that the Canadian swine inventory has not varied by as much as 1 percent over the five year period from 1980 to 1985.

Unwilling to reduce supply and unable to reverse declining demand at home, Canada has apparently relied increasingly on exports of subsidized pork and swine to avoid painful adjustments in the domestic market. Thus, Canadian exports of swine increased from 1.0 percent of domestic production in 1981 to 8.3 percent in 1984. And, for pork the pattern was identical. Pork exports climbed from 12.9 percent of Canadian production in 1981 to 20.3 percent in 1984. Report at A-18.

It is also important to observe that Canada has become even more reliant on the U.S. market to absorb its surplus pork production. In 1981, for example, 61.4 percent of Canadian pork exports moved across its southern border. Each succeeding year saw Canada become ever more reliant on U.S. pork sales--64 percent of exports in 1982, 66 percent in 1983, and 75 percent in 1984. Report at A-19, Table 8.

1/ While Canadian figures here include swine used for breeding, the trend would be the same.

Increased Canadian pork exports are likely to circumvent countervailing duty order on swine. During this investigation parties have stressed that there is an integrated North American market for swine and pork. (The flow is one way, however, because U.S. swine and pork producers sell little of their products in Canada). As noted above, this trend is quite evident in the export patterns of Canadian swine growers and pork producers. Nothing in the record of this investigation suggests that Canadian exporters will develop alternative foreign markets to absorb their surplus subsidized swine and pork production. Rather, because pork is a highly perishable commodity and transportation costs to U.S. consumers are relatively low, it is realistic to conclude that Canadian pork will continue to travel south, but in increasing quantities.

Imposition of a countervailing duty on imports of subsidized Canadian swine (Can $0.04 per pound live weight) will give Canadian growers an extraordinary economic incentive to slaughter increasing quantities of swine in Canada and then ship the resulting pork products to U.S. processors. There is no question that Canada has sufficient slaughter-house capacity to maximize revenues in this manner. Moreover, as

stated previously, Canadian capacity for swine slaughtering and processing could increase without substantial capital investment or reorganization.

If all the swine exported to the United States were slaughtered instead in Canada and shipped to the same market as fresh, chilled or frozen pork, so as to evade the countervailing duty on swine, the Commission report estimates that Canadian pork products would take an even larger share of the U.S. market in 1985 and subsequent years. That share in 1985 would be 5.3 percent of domestic consumption. Report at A-40, Table 28.

In the judgment of this Commissioner, the facts of the instant case dictate an affirmative determination on both swine and pork products. In revising our unfair trade practice laws in 1984, Congress displayed considerable sensitivity to the possibility that foreign producers would seek to shift products to evade the effects of an antidumping or countervailing duty order. The present case would appear to present a classic opportunity for such circumvention.

In Mary Mapes Dodge's novel Hans Brinker, a juvenile classic, children read about the little Dutch boy who, while trudging along a dike, noticed a

small hole through which a tiny stream was flowing. The little boy understood the danger at a glance. "That little hole, if the water were allowed to trickle through, would soon be a large one, and a terrible inundation would be the result." M. Dodge, Hans Brinker at 120 (1945).

From my vantage point the present case resembles in part the situation the little Dutch boy encountered. There can be no effective relief from subsidized swine imports, if the Commission closes only the hole marked "swine" and neglects altogether the nearby hole marked "pork." As the little Dutch boy knew instinctively, the hole in the dike will soon become a large one and a terrible inundation will result.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

Following a preliminary determination by the U.S. Department of Commerce that certain benefits that constitute subsidies within the meaning of the countervailing duty law are being provided to manufacturers, producers, or exporters in Canada of live swine and fresh, chilled, and frozen pork (hereafter referred to as pork), the U.S. International Trade Commission, effective April 3, 1985, instituted investigation No. 701-TA-224 (Final) under section 705(b) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b)) to determine whether 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 of such merchandise.

Notice of the institution of the Commission's investigation and of a hearing to be held in connection therewith was given by posting copies of the notice in the Office of the Secretary, the U.S. International Trade Commission, Washington, DC, and by publishing copies of the notice in the Federal Register of April 24, 1985 (50 FR 16175). 1/ The public hearing was held in Washington, DC, on June 25, 1985. 2/

Background

On November 2, 1984, the U.S. International Trade Commission and the U.S. Department of Commerce received petitions filed by counsel on behalf of members of the National Pork Producers Council (NPPC), Des Moines, IA, alleging that an industry in the United States is materially injured, or is threatened with material injury, by reason of imports from Canada of live swine and pork, provided for in items 100.85 and 106.40, respectively, of the Tariff Schedules of the United States (TSUS), upon which bounties or grants are alleged to be paid. Accordingly, the Commission instituted a countervailing duty investigation under section 703(a) of the Tariff Act of 1930 to determine whether there is a reasonable indication that an industry in the United States is materially injured, or threatened with material injury, or the establishment of an industry in the United States is materially retarded by reason of imports of live swine and pork from Canada.

On December 17, 1984, the Commission determined, on the basis of the record developed during the course of its preliminary investigation, that there was a reasonable indication that an industry in the United States was materially injured by reason of imports from Canada of live swine and fresh, chilled, or frozen meat (except meat offal) of swine.

Shortly after the filing of this petition, the Department of Commerce questioned whether the petitioner, the National Pork Producers Council, whose members produce live swine, has standing to file a petition on behalf of an

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1/ A copy of the Commission's notice of institution is presented in app. A. A copy of the Department of Commerce's notice is presented in app. B.

2/ The list of witnesses appearing at the Commission's hearing is presented in app. C.

industry producing pork absent any support by pork packers. 1/ In response, petitioner filed a supplemental memorandum stating that six packers of pork (accounting for approximately 3 percent of swine slaughter) in 1984 supported the petition, however, they did not join as co-petitioners. Separately, 11 packers or processors (accounting for 20 percent of swine slaughter) expressed opposition to the petition. Commerce proceeded to initiate its countervailing duty investigation (49 FR 47079, Nov. 30, 1984) noting that the issue of standing was unclear and invited interested parties to submit comments.

Subsequent to the conclusion of the Commission's preliminary investigation, seven pork packers, including one of the largest in the United States (together accounting for approximately 50 percent of swine slaughter), communicated their support in this action to impose countervailing duties on imports of Canadian swine and pork. The inclusion of these firms as copetitioners, according to Commerce, satisfies the statutory requirements for NPPC's filing on behalf of an industry producing pork. 2/

Previous Commission Investigation

The Commission recently conducted an investigation under section 332(g) of the Tariff Act of 1930 (No. 332-186) 3/ for the purpose of gathering and presenting information on the competitive and economic factors affecting the U.S. and Canadian live swine and pork industries in U.S. markets. The investigation was requested by Senator Robert J. Dole, Chairman, U.S. Senate Committee on Finance. The Commission's findings were delivered to that Committee on November 21, 1984.

The scope of the 332 investigation was somewhat broader than the scope of the instant investigation due to the inclusion of prepared and preserved pork (processed pork) in the 332 investigation. In addition, certain data that were presented in the 332 investigation have been revised by the U.S. Department of Agriculture (USDA). Consequently, any comparisons of data or trends between the two reports should be made cautiously.

Nature and Extent of Subsidies

On June 17, 1985, the Department of Commerce published its final determination that certain benefits which constitute subsidies are being provided to producers or exporters in Canada of live swine and pork. The period examined by Commerce for this preliminary determination was the Government of Canada's 1984 fiscal year--April 1, 1983, to March 31, 1984. The following Government programs were found to confer subsidies:

1/ Packers slaughter the live swine to produce the pork cuts.

2/ See Commerce's notice in app. B. According to petitioner's counsel only Wilson Foods Corp. joined as copetitioner.

3/ Conditions of Competition Between the U.S. and Canadian Live Swine and Pork Industries, . . ., USITC Publication 1615, November 1984.

Federal Programs

-Hog Stabilization Payments Provided Under the Agricultural Stabilization Act
-Record of Performance Program

Provincial Programs

A. Stabilization Programs
-Prince Edward Island Price Stabilization Program
-Newfoundland Hog Price Support Program
-Nova Scotia Pork Price Stabilization Program
-British Columbia Swine Producers' Farm Income Plan
-Saskatchewan Hog Assured Returns Program
-Manitoba Hog Income Stabilization Plan
-New Brunswick Hog Price Stabilization Plan
-Quebec Farm Income Stabilization Insurance

B. Other programs
-New Brunswick Swine Assistance Program
-New Brunswick Loan Guarantees and Grants under the Livestock Incentives Program
-New Brunswick Hog Marketing Program
-Nova Scotia Swine Herd Health Policy
-Nova Scotia Transportation Assistance Program
-Ontario Farm Tax Reduction Program
-Ontario (Northern) Livestock Programs
-Prince Edward Island Hog Marketing and Transportation Subsidies
-Prince Edward Island Interest Payments On Assembly Yard Loan
-Quebec Meat Sector Rationalization Program
-Quebec Special Credits for Hog Producers
-Saskatchewan Financial Assistance for Livestock and Irrigation

Commerce computed the aggregate value of these subsidies to be Can $0.04390/lb. (live weight) applicable to live swine and Can $0.05523/lb. (dressed weight) applicable to fresh, chilled, and frozen pork. Consequently, effective June 17, 1985, the U.S. Customs Service required that a cash deposit or bond be posted in amounts equal to Commerce's subsidy determinations, on all imports from Canada of such merchandise.

The Product

Description and uses

This investigation covers all domesticated live swine and all fresh, chilled, or frozen meat of swine fit for human consumption. Prepared or preserved meat of swine such as ham, bacon, and sausage is not included.

Live swine.--In general usage, swine are referred to as hogs and pigs. The term "hogs" generally refers to mature animals and "pigs" to young animals. The provision for live swine in the TSUS under item 100.85 applies to all domesticated swine regardless of age, sex, size, or breed. 1/

Swine are monogastric, litter-bearing animals that may weigh from 400 to 600 pounds at maturity depending on breed and sex. In the United States, most swine are slaughtered for meat when they weigh about 220 pounds and are about 6 months old. Such animals are referred to as slaughter hogs. A few of the more desirable animals are retained for breeding purposes although they are slaughtered for meat when they are no longer used for breeding. Carcasses of boars (male swine) sometimes acquire boar odor, an unacceptable odor that renders the meat unfit for human consumption. When such odor is detected by USDA inspectors, the carcass is condemned.

Worldwide, live swine are divided into three types based on usage--meat type, lard type, and bacon type--although all three types yield at least some of the other products. For many years, almost all swine raised in the United States have been of the meat type, and meat production is virtually the only purpose for which they are kept.

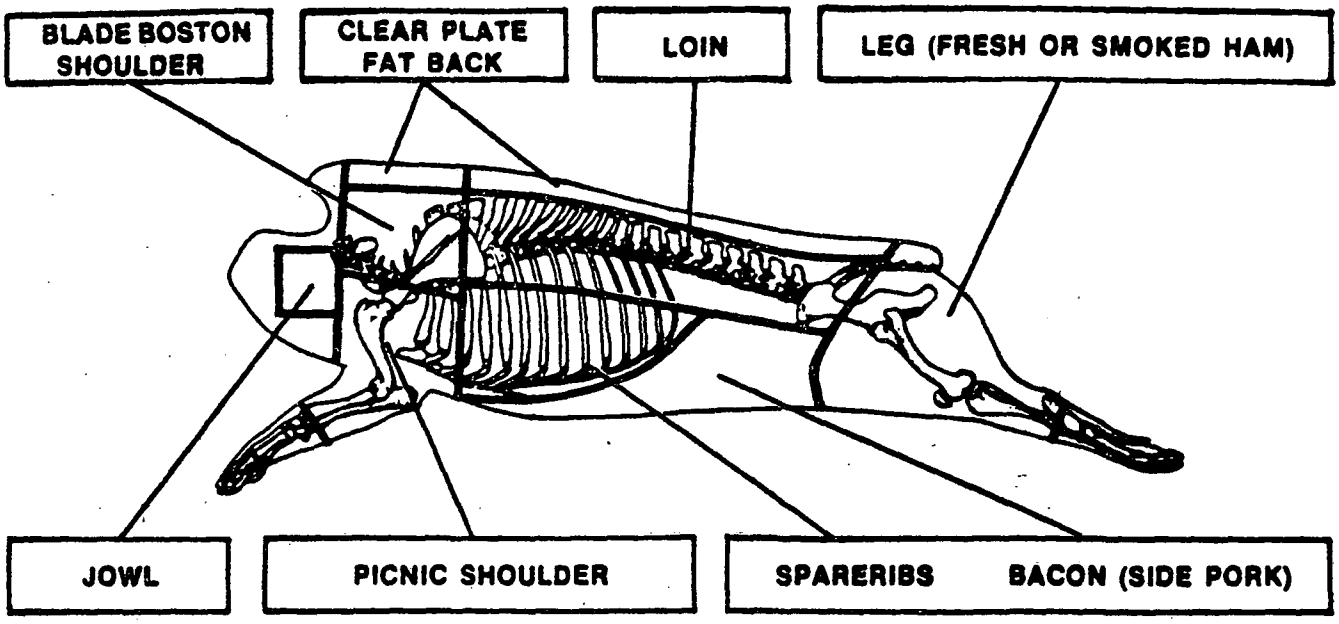
Swine may be white, dark red, brown, black, or any combination, depending on breed. The most common breeds of swine in the United States are the Duroc, Yorkshire, Hampshire, Spotted Swine (commonly called "Spots"), Landrace, Chester White, Berkshire, and Poland China. Most swine in the United States are not purebred, but instead have bloodlines of two or more breeds.

Meat of swine.--In common usage, meat of swine is referred to as pork, which is light red in color. White fat covers much of the swine carcass, and some fat is dispersed throughout the meat. Most slaughtered U.S. swine yield a carcass that weighs about 156 pounds, or about 71 percent of the live weight. Carcasses (and live swine) are graded by the USDA on the basis of yield, meaning the percentage of primal cuts (hams, loins, and picnic shoulders) obtained from the major parts of the carcass. There are five yield grades: one, two, three, four, and utility. Grade one has the highest percentage of retail cuts, and grade utility has the lowest. In place of the USDA system, many meatpacking companies administer their own grading systems. Figures 1 and 2 show the location of the various cuts of the swine carcass.

Pork that is ready for cooking and consumption without further processing is often referred to as fresh pork (TSUS item 106.40), and a significant portion of some pork cuts, such as loins, are so consumed. Overall, fresh pork accounts for about one-third of total U.S. consumption of all fresh, chilled or frozen, prepared or preserved pork. The fresh pork that is consumed in the United States is primarily from U.S.-raised slaughter hogs (swine slaughtered at about 220 pounds and about 6 months old).

1/ Certain purebred swine are classifiable in TSUS item 100.01 (pt.) and, swine may theoretically be classified under TSUS items 100.03 and 100.04, but such imports are negligible. Also, wild swine and meat of wild swine are considered to be game animals and meat of game animals respectively, for tariff purposes; therefore, they are not included in this investigation.

Figure 1.-- **PRIMAL (WHOLESALE) CUTS AND BONE STRUCTURE OF PORK.**



FRESH PORK RETAIL NAMES

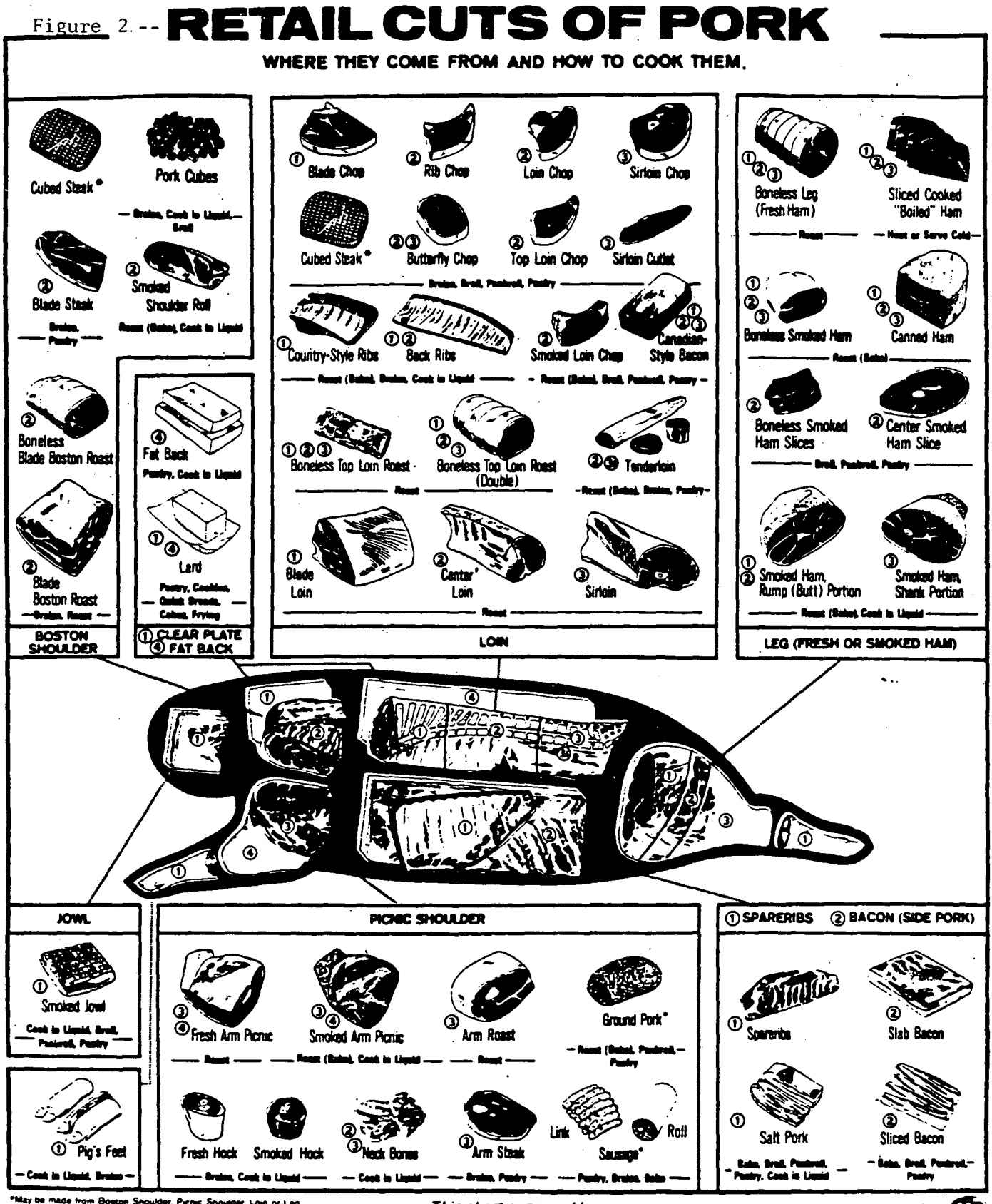
While there are many ways to cut beef, the method of cutting pork carcasses is much the same in all sections of the United States (Fig. 1). Pork is fabricated and processed before it leaves the packing plant. About 35% is sold fresh, and the remaining 65% is cured by various methods or used in manufactured meat products.

Pork Shoulder

The pork shoulder may be sold to the retailer by the packer as a whole New York Style Shoulder (untrimmed with the neck bones in and fat on) or as a trimmed N.Y. Style Shoulder with the neck bones removed and part of the clear plate (fat cover) removed. The most common practice, however, is for the packer to cut the N.Y. Style Shoulder, trimmed, into pieces: 1. Arm Picnic Shoulder and 2. Blade Boston Shoulder.

Source: Reproduced with approval of National Live Stock and Meat Board.

Figure 2.--



Source: Reproduced with approval of National Live Stock and Meat Board.

Manufacturing process

The live swine industry in the United States may be divided into three types of businesses: feeder pig producers; feeders or finishers; and, farrow-to-finish enterprises, the most common type. Gross income to farmers from live swine was $9.8 billion in 1984, down 1 percent from $9.9 billion in 1983, and down 9 percent from a record high of $10.8 billion in 1982. 1/

Live swine are slaughtered and processed by meatpacking businesses. A few of the companies are owned and operated by live swine growers. Most of these are cooperatives. Consumer expenditures for pork amounted to about $23.5 billion in 1984, down 4 percent from $24.5 billion in 1983.

Live swine.--Pigs are born (farrowed) after a gestation period that is normally 114 days. A few days after birth, most male pigs are castrated and are thereafter referred to as barrows. The barrows and gilts (female swine that have not farrowed) are raised to a weight of about 40 pounds in about 2 months. These animals are referred to as feeder pigs, and the businesses that raise them are referred to as feeder pig producers. The feeder pigs may be sold to so-called feeders or finishers, who raise them to a slaughter weight of about 220 pounds in about 4 months. At that point these animals are referred to as slaughter hogs. However, most U.S. swine today are produced by so-called farrow-to-finish enterprises, which combine the feeder pig production and finishing businesses into one operation. A few enterprises specialize in raising purebred animals for breeding.

Swine are hardy, adaptable animals that can be raised under minimal shelter, although the death rate for baby pigs can be quite high under those conditions. In the United States, live swine shelter systems range from small, A-frame buildings for individual sows (female swine that have farrowed) and their litters to large-volume, total confinement systems in which swine are maintained in total environmentally controlled buildings throughout their lives. In recent years the trend has been toward more confinement in order to reduce labor requirements and to meet environmental protection regulations.

Meatpackers.--In the slaughtering operation, live swine are stunned (usually by an electric charge), bled, scalded, dehaired, decapitated, and eviscerated. The animal's carcass is then generally split along the spinal column and chilled. The carcass may be partially or fully processed at the meatpacking plant or shipped to retail outlets for processing. The carcass is cut up to yield hams, loins, chops, and other parts.

Many of the large packers also process pork into sausage, ground pork, and other pork related products (hereafter referred to as a packer/processor). Some cuts of pork are usually prepared or preserved so as to alter the taste, consistency, or appearance of the meat and extend the shelf life. Smoking, drying, or injection of curing agents are common methods used to prepare or preserve pork. 2/

1/ Meat Animals Production, Disposition and Income, 1984 Summary, at pp. 9 and 11, USDA Publication MT AN 1-1 (85), Apr. 3, 1985.

2/ Pork that is prepared, preserved or processed is not within the scope of this countervailing duty investigation.

U.S. tariff treatment

Virtually all imports of live swine enter the United States under TSUS item 100.85 and come from countries receiving the column 1 rate of duty, 1/ which for this tariff item is free. A few minor breeds of swine are eligible for entry under the provision for purebred animals (included in item 100.01) and theoretically, swine can enter under certain provisions for animals temporarily exported (TSUS items 100.03 and 100.04). However, these provisions are seldom used, inasmuch as item 100.85 provides for duty-free entry. Thus, there is no incentive to use other provisions of the TSUS.

U.S. imports of fresh, chilled or frozen pork are classified under item 106.40. These imports also enter free of duty from countries receiving the column 1 rate of duty.

Health and sanitary regulations of the USDA and other U.S. trade policy factors

Certain health and sanitary regulations with respect to U.S. imports of live swine and pork are administered by the USDA to protect the U.S. livestock industry and to ensure an adequate supply of safe meat for the consumer. For example, sources of imports of pork are limited to those countries that have been declared free of rinderpest and foot-and-mouth diseases 2/ by the U.S. Secretary of Agriculture. Canada has been declared free of such diseases, but because of the existence of these diseases in many of the pork producing countries of Europe, pork imported from these countries is usually cooked, canned, or cured. Under the Federal Meat Inspection Act, only plants in those countries that have meat inspection systems with standards at least equal to those of the USDA program are permitted to ship meat to the United States.

Currently there is a controversy between the United States and Canada involving chloramphenicol, a therapeutic drug authorized for use in Canada but banned in the United States by the U.S. Food and Drug Administration. Some U.S. swine farmers contend that unless the drug is found to be safe, U.S. imports of live swine and pork from Canada should be prohibited, because residues of the drug in pork could present a hazard to human health and detract from the image of the pork industry. Canadian Government officials indicate that authority for use of the drug in Canada is under review.

On May 13, 1985, the Government of South Dakota reportedly banned the slaughter of food animals that have been treated with chloramphenicol. The following day the Governments of Iowa and Nebraska reportedly took steps to ban live swine that have been treated with chloramphenicol. Other States are alleged to be considering similar actions. Although the legality of these actions is currently being challenged, the immediate effect has been to

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1/ Col. 1 rates of duty are applicable to imported products from all countries except those Communist countries and areas enumerated in general headnote 3(f) of the TSUS, unless special tariff treatment is afforded to articles that are the product of designated countries.

2/ 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.

discourage U.S. packers and pork buyers from purchasing Canadian swine and pork.

During 1984, approximately 8.1 million pounds of pork--about 1 percent of U.S. imports--were refused entry for the following reasons: unsound cans; adulteration with extraneous material; short weight; failure to meet composition standards; undercooked; and biological residues. Approximately 3.3 million pounds of that total was from Canada (0.9 percent of total pork imports from that country).

Canadian customs treatment and health and sanitary regulations

Live swine imported into Canada from the United States enter duty free; fresh, chilled, or frozen pork, which accounts for the bulk of U.S. exports of pork to Canada, also enters duty free.

Canadian imports of live swine and pork from the United States are not subject to quantitative limitations, but imports of live swine from the United States are subject to regulations regarding Pseudorabies (Aujesky's disease), a contagious disease of swine and cattle found in the United States. Swine imports are permitted only from herds that are certified as having been free of Pseudorabies for 1 year, and imported animals even then must be quarantined for 30 days. The general effect of the regulations has been to limit U.S. exports of live swine to Canada to a small number of high-value breeding animals. These regulations also apply to Canadian swine that were exported to the United States and presented for reentry into Canada, thus precluding their return.

Channels of distribution

In the United States almost all live swine marketing reflects the individual decision of the farmer to sell his animals through an outlet he chooses. Most swine are purchased from the farmer by meatpackers on a per 100-pound-live-weight basis. Among major packers, only Farmland Foods is a cooperative, and cooperatives are estimated by officials of the USDA to account for approximately 5 percent of live swine purchases. 1/ Officials of the NPPC estimate that at most 5 to 10 percent of live swine sales are hedged through commodities futures exchanges.

In the United States live swine are marketed through three major types of outlets: (1) country dealers, or directly to packers; (2) terminal markets; or (3) auction markets. An auction market is a stockyard or related facility at which farmers publicly offer livestock for sale simultaneously to prospective buyers with the purchase going to the highest bidder.

At terminal markets two or more commission firms represent both sellers and buyers in arranging purchases.

1/ During the Commission's preliminary investigation, the NPPC reported that Farmland Foods slaughters about 2.8 million hogs per year and another cooperative, Arizona Pork Products, slaughters 260,000 hogs per year. See postconference brief of NPPC at pp 4 and 5.

Direct or country dealer markets are farmer sales directly to packers through packer representatives or brokers or so-called country dealers. In recent years marketings through country dealers or directly to packers have accounted for about three-fourths of sales; terminal markets, for about 12 percent; and auction markets, for about 10 percent, as shown in the following tabulation (in percent of total):

Type of market	1980	1981	1982
Direct, country dealers	76.7	78.4	79.0
Terminal markets	13.5	11.6	12.0
Auction markets	9.8	10.0	8.9
Total	100.0	100.0	100.0

With increased concentration in the live swine industry over the years, direct sales and sales through country dealers have grown. Terminal markets are located near large population centers and were more important many years ago prior to practical shipments of refrigerated meat. Auction markets are more common outlets for small lots of livestock.

In Canada, approximately 65 percent of the swine for slaughter are sold by the Provincial marketing boards through a number of different processes. 1/ In Ontario, an electronic auction process is employed. 2/ In Saskatchewan, buying stations and long-term contracts are the marketing mechanisms, whereas in Manitoba a traditional auction system is used. 3/

1/ Marketing boards in Canada are operated for separate agricultural products in each province. They are independent of the government and are responsible for their operations directly to their constituent members (in most cases the producers of the commodity involved).

2/ Transcript of the public conference held during the preliminary investigation, p. 97. Ontario's electronic auction is a "Dutch clock system" operated on teletype to the various packers that are hooked into it. When the Ontario marketing board receives a bid from an American packer, the board will convert that bid to Canadian currency using the prevailing exchange rate as well as convert it on the marketing board's average index. The marketing board will also calculate the average weight that it expects that load to have and the freight costs that will be incurred to transport the load from the marketing area that the board will select to the purchaser's door. Ibid., pp. 167-8.

3/ Saskatchewan does not operate a teletype or electronic auction. The Saskatchewan marketing board operates 14 buying stations (to purchase live swine from producers) throughout the Province, and in addition sells a portion of its hogs to Canadian packers on long-term contracts. The board also negotiates for live swine sales directly with U.S. and Canadian packers. Ibid., pp. 170-1. A buying station was described by a University of Missouri Agricultural Economist who testified on behalf of the National Pork Producers Council as a place "where you walk in and they will bid you so much, weigh your hogs, and pay you, contrasted to the auction, where it has to go through the auction arena and the auction process for developing the price." Ibid.

U.S. Producers

Live swine growers

In 1984, there were 431,680 enterprises 1/ with swine in the United States, down 36 percent from a high of 670,350 enterprises in 1980 (table 1). Swine are grown throughout the United States, but production is concentrated in the Corn Belt States. 2/ During 1984, 194,400 of the swine enterprises (45 percent of the U.S. total) were located in the Corn Belt States, and these States accounted for 42 million animals, or 77 percent of the December 1, 1984, swine inventory of 54 million animals (table 2). The Corn Belt States have large supplies of competitively priced swine feed, a large share of the most modern and efficient swine production facilities, and a large pool of skilled managers.

Table 1.--U.S. swine enterprises, 1/ by regions, 1980-84

Region	1980	1981	1982	1983	1984
	Number				
Corn Belt 2/	282,600	252,200	215,700	213,400	194,400
Southeastern States 3/	253,500	209,500	168,000	155,600	145,500
All other	134,250	118,360	98,490	93,110	91,780
Total	670,350	580,060	482,190	462,110	431,680
	Percent of total				
Corn Belt 2/	42	43	45	46	45
Southeastern States 3/	38	36	35	34	34
All other	20	20	20	20	21
Total	100	100	100	100	100

1/ An enterprise is any place having 1 or more swine on hand at any time during the year.

2/ The Corn Belt States are Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin.

3/ The Southeastern States are Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.

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

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

1/ An enterprise is any place having one or more swine on hand during the year.

2/ The following States make up the Corn Belt States: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin.

Table 2.--U.S. swine population by regions, as of Dec. 1, of 1980-84

Region	1980	1981	1982	1983	1984
	Quantity (1,000 animals)				
Corn Belt 1/	46,840	44,540	40,910	42,980	41,530
Southeastern States 2/	11,030	8,452	7,895	8,172	7,575
All other	6,642	5,696	5,130	5,542	4,938
Total	64,512	58,688	53,935	56,694	54,043
	Percent of total				
Corn Belt 1/	73	76	76	76	77
Southeastern States 2/	17	14	15	14	14
All other	10	10	9	10	9
Total	100	100	100	100	100

1/ The Corn Belt States are Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin.

2/ The Southeastern States are Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.

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

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

During 1984, the Southeastern States 1/ accounted for 145,500 swine enterprises (34 percent of the U.S. total) but only 8 million animals, or 14 percent of the inventory, as of December 1, 1984. Although the Southeastern States are less competitive in the production of grain, their pig mortality is lower, and feed conversion ratios (the amount of weight gained from feed consumed) are higher than in the Corn Belt States because of the less severe climate in the Southeastern States.

In recent years there has been a trend toward concentration in the live swine industry. However, even the largest swine-raising operations are believed to account for only a small share of total U.S. production. The share of live swine businesses with 500 animals or more increased from 4.2 percent 2/ in 1980 to 6.0 percent in 1984 (table 3). The share of the U.S. swine population kept on these large units increased from 42.0 percent in 1980 to 51.8 percent in 1984. Most live swine businesses are family owned, although a few large companies also are producers.

1/ The Southeastern States include Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.

2/ The percentage reflects average distributions based primarily on midyear surveys.

Table 3.--Percentage distribution of U.S. swine enterprises and swine inventories, by size of enterprises, 1980-84

(In percent)

Year	1 to 99 head	100 to 499 head	500 or more head	Total
	Enterprises			
1980	77.3	18.5	4.2	100
1981	76.8	18.5	4.7	100
1982	76.1	18.8	5.1	100
1983	73.4	20.4	6.2	100
1984	74.5	19.5	6.0	100
	Swine inventory			
1980	15.8	42.2	42.0	100
1981	14.4	39.9	45.7	100
1982	12.6	38.9	48.5	100
1983	11.3	37.6	51.1	100
1984	11.3	36.9	51.8	100

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

As shown in table 4, the March 1 inventory of live swine in 10 leading swine-growing States declined irregularly from 1981 to 1985. The inventory of swine for breeding purposes on March 1, 1985, was 4 percent below the year earlier level and 20 percent below the peak in 1981. The inventory of swine

Table 4.--Live swine: Mar. 1, inventory in 10 States, 1/ 1981-85

Item	As of Mar. 1--				
	1981	1982	1983	1984	1985
Swine kept for:					
Breeding purposes					
1,000 animals	6,485	5,594	6,011	5,446	5,215
Slaughter-------do----	38,790	35,076	32,639	34,624	34,315
Total--------do----	45,275	40,670	42,250	40,070	39,530

1/ Georgia, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebreska, North Carolina, and Ohio.

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

for slaughter on March 1, 1985, was 1 percent below the year earlier level and 12 percent below the peak in 1981.

Meatpackers

In 1984, there were about 1,400 federally inspected swine-slaughtering plants in the United States. In recent years, federally inspected plants have accounted for more than 90 percent of the U.S. swine slaughter.

Concentration in the meatpacking industry is much greater than in the live swine industry. The number of plants slaughtering 100,000 or more swine per year and the share of total U.S. swine slaughter accounted for by these plants are shown in the following tabulation:

	Number of plants slaughtering 100,000 head or more annually	Percent of total federally inspected slaughter
1980	115	91.5
1981	110	90.7
1982	101	90.7
1983	104	91.8
1984	99	94.5

Swine slaughter tends to be concentrated in and near areas of swine production, as shown in the following tabulation:

State	Share of commercial swine slaughter in 1984 (percent)
Iowa	24.5
Illinois	8.5
Minnesota	6.5
Michigan	6.3
Nebraska	4.8
Virginia	4.7
Ohio	4.6
Indiana	4.1
Missouri	4.0
South Dakota	3.9
All other	28.1

Although plants that slaughter 100,000 swine or more annually account for a large share of total federally inspected swine slaughter, they account for less than 10 percent of all federally inspected slaughtering plants; two-thirds of the federally inspected plants each slaughter less than 1,000 swine per year. Plants that slaughter swine are generally not equipped to slaughter other species of animals.

The Canadian Industry

The imported product

Live swine are raised in Canada in much the same way as in the United States. The most common breeds of swine in Canada are the Yorkshire, which accounts for nearly one-half of the total, and Landrace, which accounts for about one-third; other breeds include the Hampshire, Duroc, and Lacombe. In Canada, the Yorkshire, Landrace, and Lacombe are referred to as white breeds, and the Hampshire (which is black with a white band around the shoulder) and Duroc (which is brick red) are referred to as colored breeds. Many farmers breed so-called colored boars with white sows. These farmers contend that the resulting litters are more hardy and profitable than purebred animals of any single breed. Canadian animals tend to be slaughtered at slightly lighter weights than the U.S. swine (200 and 220 pounds, respectively). Canadian researchers contend that on average Canadian swine are somewhat leaner and less heavily muscled than U.S. swine. The leanness and lighter muscling reflects, in part, the greater influence of bacon-type swine on Canadian breeds.

In addition to the Canadian Pork Council (CPC) at the national level, swine farmers in every Province of Canada are represented by Provincial boards. The boards are funded primarily by mandatory marketing charges for all swine sold for slaughter and are controlled by the farmer members through elections. In addition, in all Provinces except Newfoundland and Quebec, where farmers market their own swine or they are marketed by companies that have contracted to supply services, the Provincial boards are responsible for the marketing of all swine for slaughter. These marketing boards have sole legal authority to market swine for slaughter. Generally these boards market the swine to meatpackers, including U.S. meatpackers, through auction systems. 1/

Although every Province in Canada has a live swine industry, Quebec has accounted for over one-third of total Canadian production in recent years, followed by Ontario which accounted for slightly less than one third (table 5). The Prairie Provinces (Alberta, Manitoba, and Saskatchewan, with about 12, 9, and 5 percent of production, respectively), together account for most of the remaining one-third of production.

Swine-slaughtering and swine-processing procedures in Canada are basically the same as those in the United States. Canadian slaughterers, meat processors, and distributors that deal in the interprovince commerce and export of meat are subject to Federal inspection regulations administered by Agriculture Canada. Other meat plants are subject to Provincial regulations. In 1984, there were about 520 meat (including poultry) establishments operating under Canadian Federal inspection. In recent years, Federal

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1/ At the conference held in the preliminary investigation, Jim Morris, General Manager, Saskatchewan Pork Producers Marketing Board, indicated that in that Province, some swine are sold to Canadian packers on long-term contracts, transcript of conference at p. 170.

Table 5.--Canadian live swine: Share of federally inspected slaughter, by Provinces, 1980-84

(In percent)

Province	1980	1981	1982	1983	1984
Eastern Canada:					
Quebec	37	36	37	34	38
Ontario	31	31	31	33	28
Atlantic Provinces 1/	4	4	4	4	4
Total	71	71	73	72	70
Western Canada:					
Alberta	13	12	12	12	12
Manitoba	9	9	8	9	9
Saskatchewan	5	5	4	4	5
British Columbia	2	3	2	2	4
Total	29	29	27	28	30

1/ The Atlantic Provinces are Nova Scotia, Prince Edward Island, New Brunswick, and Newfoundland.

Source: Compiled from official statistics of Agriculture Canada.

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

inspection has accounted for 85 to 90 percent of the Canadian meat industry. Canadian officials report that 23 processing plants account for a large share of Canadian swine slaughter.

Officials of the Canadian Meat Council, the meatpackers' trade association, contend that declining worker wage rates in the United States have placed the Canadian industry at a competitive disadvantage compared with the U.S. industry.

Also, these officials reported that labor unrest and strikes in the Canadian meatpacking industry that began in June 1983 and lasted throughout the fall of 1984 limited Canadian slaughtering capacity, and contributed to an increase in Canadian exports of live swine to the United States. These strikes similarly affected Canadian meatpackers' ability to process pork, thereby encouraging exports of fresh, chilled, and frozen pork to the United States.

The capacity to generate exports

Canadian production of live swine declined steadily from 14.5 million head in 1980 to 14.0 million head in 1982, or by 3 percent (table 6). Canadian swine production then increased in 1983 and again the following year reaching nearly 15.0 million head in 1984. The consumption (slaughter) of swine in Canada during this period (1980-84) declined irregularly from 14.3

Table 6.--Live swine: Canadian beginning inventory, production, imports, exports, apparent consumption, losses, and ending inventory, 1980-85

(In thousands of head)

Year	Beginning inventory	Production 1/	Imports	Exports	Apparent consumption 2/	Losses	Ending inventory
1980	9,688	14,500	1	248	14,311	3/	10,190
1981	10,190	14,200	1	147	14,152	56	10,035
1982	10,035	14,000	1	296	13,449	221	10,070
1983	10,070	14,600	4/	456	13,688	145	10,380
1984	10,380	5/ 14,950	4/5/	5/ 1,240	13,851	79	10,160
1985 5/	10,160	15,300	4/6/	6/ 1,400	13,750	100	10,210

1/ Pig births.
2/ Commercial slaughter.
3/ Negligible.
4/ Less than 500 head.
5/ Preliminary.
6/ Forecast.

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

million head in 1980 to 13.9 million head in 1984. At the same time Canadian exports of swine rose sharply.

During 1981-84 Canada exported a relatively small but rapidly increasing share of its live swine production, as shown in the following tabulation (in percent):

	Ratio of exports to production
1981	1.0
1982	2.1
1983	3.1
1984	8.3

The trend in Canadian production and consumption of pork followed a pattern similar to that exhibited by swine (table 7). Canadian pork exports increased 45 percent between 1981 and 1982, decreased 4 percent in 1983, and then increased 11 percent in 1984.

Table 7.--Pork: Canadian beginning inventory, production, imports, exports, ending inventory, and apparent consumption, 1980-85

(Million pounds, carcass weight equivalent)

Year	Beginning inventory	Production	Imports	Exports	Ending inventory	Apparent consumption
1980	26	1,933	43	260	32	1,710
1981	32	1,916	44	248	27	1,717
1982	27	1,836	32	360	21	1,514
1983	21	1,878	43	347	23	1,572
1984	23	1,902	32	386	26	1,546
1985 1/	26	1,878	26	364	26	1,540

1/ Forecast.

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

Canadian exports of pork, as a share of its pork production, are considerably larger than those for swine. These exports as a share of Canadian production fluctuated upward during 1981-84, as shown in the following tabulation (in percent):

	Ratio of exports to production
1981	12.9
1982	19.6
1983	18.5
1984	20.3

Canadian exports of live swine and pork, by markets, during 1981-84 are presented in table 8.

U.S. Importers

Large-volume U.S. meatpackers account for the great bulk of U.S. imports of live swine. U.S. farmers' imports of feeder pigs and swine for breeding purposes account for only a small share of imports. 1/ At the Commission's public conference held for the preliminary investigation, Mr. Helmut Loewen, general manager, Ontario Pork Producers' Marketing Board, indicated that the bulk of Canadian live swine sales go to Michigan, Ohio, and the border States of the West. 2/ Petitioner agreed and indicated its belief

1/ See posthearing brief of CPC on investigation 332-186, at pp. 11 and 12.
2/ See transcript of public conference at p. 135.

Table 8.--Live swine and pork: 1/ Canadian exports, by principal markets, 1981-84

Item and market	1981	1982	1983	1984
	Quantity (1,000 head)			
Live swine:				
United States	143.8	302.5	453.9	1,343.4
Other Western Hemisphere	1.2	1.2	2.5	1.0
Europe	2/	.0	.0	2/
Far East	2/	.0	.0	2/
Total	145.0	303.7	456.4	1,344.4
	Quantity (1,000 pounds)			
Pork: 3/				
United States	226,257	299,527	296,333	375,815
Japan	94,924	97,154	92,808	65,063
United Kingdom	38,472	33,985	28,410	22,247
New Zealand	3,620	4,121	3,203	3,143
All other	5,063	32,561	25,923	30,566
Total	368,336	467,348	446,677	496,834

1/ Data shown in this table are derived from Statistics Canada and are not necessarily comparable with statistics of the USDA or the U.S. Department of Commerce.
2/ Less than 500 head.
3/ Includes pork offals.

Source: Compiled from Statistics Canada.

that the bulk of the imports were by packers located close to the Canadian border. 1/

U.S. meat processors, including some U.S. meatpackers, account for most of U.S. imports of fresh, chilled, or frozen pork inasmuch as the great bulk of the imports are for further processing. Importers ranged from small-volume speciality meat processors in New England to the large-volume major meatpackers-processors in the Corn Belt States. During the preliminary investigation, the CPC indicated that the northeastern U.S. markets of New York, Boston, and Philadelphia were important markets for Canadian pork. 2/

U.S. Consumption

U.S. consumption (commercial slaughter) of swine declined by 10 percent from 1981 to 1982, increased by 7 percent in 1983, and declined by 3 percent in 1984 (table 9). The reduced slaughter in 1982 reflected, in part, reduced

1/ See postconference brief of NPPC at p. 9.
2/ See postconference brief of CPC at p. 28.

Table 9.--Live swine: U.S. beginning inventory, commercial slaughter, and ending inventory, 1981-85, January-March 1984, and January-March 1985

(In thousands of head)

Period	Beginning 1/ inventory	Apparent consumption 2/	Ending inventory
1981	64,512	91,575	3/ 58,688
1982	58,688	82,191	3/ 54,935
1983	53,935	87,584	3/ 56,694
1984	56,694	85,156	3/ 54,043
1985	54,043	4/	4/
January-March--			
1984	56,694	21,802	5/ 51,455
1985	54,043	20,873	5/ 50,361

1/ Inventory as of Dec. 1 of the previous year.
2/ Commercial slaughter.
3/ Inventory, as of Dec. 1.
4/ Not available.
5/ Inventory on Mar. 1, estimated by staff of USITC on the basis of official USDA statistics.

Source: Compiled from official statistics of the USDA.

swine numbers. The beginning inventory was reduced at the start of 1982 following more than 2 years of economically difficult times for swine farmers. Lower feed costs and higher prices for live swine during 1982 encouraged swine farmers to once again build up their herds, contributing to reduced slaughter. Higher feed prices and additional swine numbers the following year led to an increase in slaughter in 1983. Swine slaughter then declined by 3 percent in 1984, and by 4 percent in January-March 1985 compared with that in the corresponding period of 1984.

The U.S. swine industry experiences a business cycle, commonly referred to as the hog cycle. The hog cycle is characterized by expansions and contractions in the number of animals grown and, consequently, the supply of swine available for slaughter. Economic factors, mainly changes in levels of profitability, or anticipation of such changes, function as production signals to swine growers triggering different phases of the hog cycle. In the short term, because of biological factors (i.e., because of biological lags in production adjustments), the response to such signals may appear contrary. For example, in a period of declining prices growers may actually increase their swine shipments. But the increased shipments are made possible by selling off breeding stock or by selling hogs that under other conditions would have been retained for breeding. Thus, in the long term, such adjustments act to reduce the growers' capacity to supply slaughter hogs, which is the rational economic response indicated by the production signals read months earlier. In some instances then, because of this time lag, economic conditions that exist when changes in supplies are finally observed may be quite different from those prevailing when the production decision is made. For a more detailed explanation of the hog cycle see appendix D.

Pork consumption in the United States closely paralleled commercial swine slaughter. Consumption of pork fell from 15.9 billion pounds in 1981 to 14.4 billion pounds in 1982, or by 9 percent, and then rose to 15.4 billion pounds in 1983 and 1984, or by 7 percent. Consumption was up very slightly in 1984. In January-March 1985, it was down slightly compared with consumption in the corresponding period of 1984, as shown in the following tabulation (in millions of pounds, carcass weight equivalent):

Period	Pork consumption
1981	15,927
1982	14,425
1983	15,369
1984	15,384
January-March--	
1984	3,815
1985	3,790

Per capita U.S. consumption of pork has fluctuated from 1981 to 1984, as shown in the following tabulation (in pounds):

1981	69.9
1982	62.7
1983	66.2
1984	65.6
January-March--	
1984	16.3
1985	16.1

Consideration of Material Injury to an Industry in the United States

Due to the extensive data available from published sources and the lack of concentration of production of live swine (no single operation accounted for as much as 2 percent of production 1/), the information developed for growers will consist mostly of secondary data. For this final investigation, questionnaires were sent to over 100 concerns that were believed to be growers, but responses were received from only 20, of which 13 were producers. These 13 accounted for a negligible share of U.S. swine production in 1984. Their responses are presented in app. E.

All packers listed in the petition and those identified as importers during the earlier 332 and preliminary investigations were sent questionnaires by the Commission in the final stage of this investigation. 2/ From a total

1/ Information from the NPPC.

2/ Among those packers sent questionnaires are all those who notified the Commission of their support or opposition to the petition.

of 28 packer/processors sent questionnaires, 17 responded, accounting for about 63 percent of U.S. swine slaughter in 1984. 1/ Again, published sources provided more complete coverage. Therefore, data compiled from questionnaire responses are used for those sections where published data are not available.

Growers: U.S. production, domestic shipments, and exports

U.S. production of live swine, referred to as the swine crop by USDA and the industry, decreased by 9 percent to 85 million head from 1981 to 1982 and then increased by 9 percent to 93 million head in 1983 (table 10). Swine production declined by 7 percent in 1984 and then increased slightly in January-March 1985 compared with production in the corresponding period of 1984.

Domestic shipments of live swine fluctuated downward during 1981-84. Shipments fell by 10 percent from 1981 to 1982, increased by 6 percent in 1983, and decreased by 4 percent in 1984. In January-March 1985, shipments declined by 6 percent compared with those in the corresponding period of 1984.

Table 10.--Live swine: U.S. production, 1/ commercial slaughter, imports for consumption, exports, and domestic shipments, 2/ 1981-84, January-March 1984, and January-March 1985

(In thousands of head)

Period	Production	Commercial slaughter	Imports	Exports	Domestic shipments
1981	93,853	91,575	146	24	91,429
1982	85,189	82,191	295	37	81,896
1983	93,155	87,584	447	23	87,137
1984	86,476	85,156	1,322	14	83,834
January-March--					
1984	3/ 18,412	21,802	274	3	21,528
1985	3/ 18,564	20,873	540	3	20,333

1/ Births from Dec. 1 of the previous year through Nov. 30 of the indicated year.
2/ Commercial slaughter minus imports.
3/ Estimated from official statistics of USDA.

Source: Production and commercial slaughter, compiled from official statistics of the U.S. Department of Agriculture; imports and exports, compiled from official statistics of the U.S. Department of Commerce; domestic shipments are calculated by subtracting imports from commercial slaughter.

1/ * * * provided partial responses to the Commission's questionnaire. Together they accounted for approximately * * * percent of U.S. swine slaughter in 1984.

U.S. exports of live swine account for a very small share of U.S. production. In 1981, exports totaled 24,000 head; they increased to 37,000 head in 1982, and then fell to 23,000 head in 1983 and to 14,000 head in 1984. As a rule, these hogs are not exported for slaughter in the receiving country, but rather for breeding stock. Mexico, Japan, Thailand, and Taiwan were the primary recipients of U.S. swine in 1984.

Packers: Domestic pork production, capacity, and capacity utilization

U.S. packers responding to the Commission's questionnaire reported steady increases in pork production during the period examined (table 11). Pork production increased by 12 percent from 1982 to 1983 and increased by another 2 percent in 1984, reaching 6.9 billion pounds. Production increased by 5 percent during January-March 1985 compared with that in the corresponding period of 1984.

Capacity to produce pork increased faster than production from 1982 to 1983, and consequently, capacity utilization fell from 85.1 percent to 71.6 percent, respectively. Total capacity to produce pork changed only slightly during 1984-March 1985. Rising production in 1984 and in January-March 1985, therefore, yielded capacity utilization equal to 73.0 percent in 1984 and to 75.2 percent during January-March 1985.

Table 11.--Pork: U.S. production, capacity, and capacity utilization, 1982-84, January-March 1984, and January-March 1985 1/

Item	1982	1983	1984	January-March--	
				1984	1985
Production					
million pounds--	6,038	6,783	6,931	1,629	1,701
Capacity----------do----	7,094	9,474	9,498	2,263	2,262
Capacity utilization					
percent--	85.1	71.6	73.0	72.0	75.2

1/ U.S. packers submitting usable data together accounted for approximately * * * percent of U.S. swine slaughter in 1984.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Packers: Domestic shipments, exports, and inventories

Pork is primarily sold to meat processors, which prepare, preserve, or alter the pork. Packer/processors may purchase pork when sufficient live swine are not available to support their process operations.

Shipments of U.S.-produced pork have fluctuated during the period examined (table 12). Such shipments declined by 10 percent from 1981 to 1982, increased

by 7 percent in 1983, and then declined by 2 percent in 1984; they declined by 4 percent in January-March 1985 compared with shipments in the corresponding period of 1984.

Exports of pork have fluctuated downward during January 1981-March 1985 and have accounted for less than 1 percent of total shipments since 1982. Japan, Mexico, and Canada received approximately 75 percent of U.S. exports of pork in 1984 (table 13).

Table 12.--Pork: Domestic and export shipments of U.S.-produced pork, 1981-84, January-March 1984, and January-March 1985

(In millions of pounds)

Item	1981	1982	1983	1984	January-March--	
					1984	1985
Domestic shipments	15,677	14,090	15,015	14,693	3,682	3,540
Exports	173	117	125	93	29	19
Total	15,850	14,207	15,140	14,786	3,711	3,559

Source: Domestic shipments calculated from U.S. consumption minus imports of swine (carcass weight equivalent) and pork; exports, compiled from official statistics of the U.S. Department of Commerce.

Table 13.--Pork: U.S. exports, by major markets, 1981-84, January-March 1984, and January-March 1985

(In thousands of pounds)

Market	1981	1982	1983	1984	January-March--	
					1984	1985
Japan	86,744	64,904	70,331	40,450	16,371	4,489
Mexico	27,568	19,602	21,393	21,338	4,960	6,684
Canada	22,381	13,463	15,148	7,665	1,683	779
All other countries	35,826	19,043	17,974	23,687	5,609	7,417
Total	172,519	117,012	124,846	93,140	28,624	19,369

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

U.S. inventories of pork (cold-storage stocks) are shown in the following tabulation:

Period	Inventories (million pounds)
As of Dec. 31--	
1981	264
1982	219
1983	301
1984	274
As of Mar. 31--	
1984	351
1985	314

Although inventories can build during periods of depressed prices, historically inventories have averaged less than 2 percent of total shipments. Fresh pork is a perishable commodity and unless frozen will spoil in a matter of weeks.

Responding packers did not report any inventories of pork held in Canada.

Packers: U.S. employment, wages, and productivity

The average number of production and related workers producing pork declined irregularly during 1982-84 (table 14). After increasing by 3 percent

Table 14.--Average number of production and related workers producing pork, hours worked, and wages and total compensation paid to such workers, 1982-84, January-March 1984, and January-March 1985 1/

Item	1982	1983	1984	January-March-- 1984	January-March-- 1985
Production and related workers producing pork:					
Average employment---number--	12,783	13,216	11,667	9,663	10,095
Hours worked------thousands--	25,810	25,632	24,147	5,622	6,064
Average annual hours per worker----------hours--	2,019	1,939	2,070	2/ 2,327	2/ 2,403
Wages paid----1,000 dollars--	262,518	252,290	199,653	46,857	49,933
Total compensation paid 1,000 dollars--	319,774	307,950	239,599	56,345	60,725

1/ U.S. packers submitting usable data together accounted for approximately * * * percent of U.S. swine slaughter in 1984.
2/ Annualized.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

from 1982 to 1983, the average number of production workers fell by 12 percent in 1984. Hours worked by these workers decreased by 1 percent from 1982 to 1983 and by 6 percent in 1984.

Packers have been successful in lowering wage rates as evidenced by the steady decline in the average hourly rate and they have also won changes in work rules 1/ that have permitted significant gains in labor productivity (table 15). Consequently, unit labor costs declined by 34 percent during 1982-84.

Table 15.--Labor productivity, hourly compensation, and unit labor costs in the production of pork, 1982-84, January-March 1984, and January-March 1985 1/

Item	1982	1983	1984	January-March--	
				1984	1985
Labor productivity--pounds per hour--	234	265	287	290	281
Hourly compensation 2/-----per hour--	$10.17	$9.84	$8.27	$8.33	$8.23
Unit labor cost 3/--cents per pound--	5.3¢	4.5¢	3.5¢	3.5¢	3.6¢

1/ U.S. packers submitting usable data together accounted for approximately * * * percent of U.S. swine slaughter in 1984.
2/ Based on wages paid excluding fringe benefits.
3/ Based on total compensation.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

The majority of the production workers are covered by collective bargaining agreements. The United Food and Commercial Workers International Union represents the bulk of these workers.

Financial experience of U.S. swine growers

In order to provide the Commission with accurate and current financial information, and at the same time recognizing the difficulty many hog growers would have with completing the typical financial section of the Commission's questionnaire, the staff provided two methods in the growers' questionnaire for reporting profit and loss information. 2/ Hog growers were given the option of reporting their net farm income or loss by either the cash method or by the accrual method of accounting. In the cash method of accounting, the grower reflects all cash receipts and disbursements made throughout the grower's fiscal year. In the accrual method of accounting, the hog grower matches expenses to the revenues realized during the fiscal year. All farmers use one of the two methods for tax reporting purposes; therefore, they are

1/ * * *.
2/ As stated earlier, growers responding to the questionnaire accounted for a negligible share of U.S. swine production.

familiar with the terms used in the financial section of the questionnaire. The aggregated financial information on the hog growers' overall farm and live swine operations gathered from each method is presented in appendix E (tables E-1, E-2, E-3, and E-4). The cash method of net farm income or (loss) reporting is presented first (tables E-1 and E-2) and then the accrual method is presented (tables E-3 and E-4). Throughout this report the term "farm operating income or loss" will be utilized; it is defined as net farm income or (loss) before interest expense. A review of the farmers' financial situation before interest expense is important because, as reported by the news media, many farmers have burdened themselves with debt for machinery purchases and land acquisitions. More importantly, interest expense is a function of a grower's particular economic situation or financial policy. Therefore, review of financial operations before interest expense eliminates the impact of each grower's financial policy or economic situation on financial performance that relates to the growing of live swine.

In order to provide a broader and more representative financial picture of swine growers the questionnaire financial information has been supplemented with data from two secondary sources, the U.S. Department of Agriculture and the American Meat Institute.

Feed is the major expense item for hog growers. Fuel or utility expenses, maintenance on machinery, building repairs, and veterinary expenses are other significant expense items. Tables 16 and 17 show the prices of No. 2 yellow corn and 44-percent protein soybean meal, 1/ respectively, at two markets in the United States over the past 6 years and 3 months. As shown in the tables, prices for both products have not been stable. No. 2 yellow corn prices have experienced four periods of sustained average quarterly price increases of at least 6 months in duration alternating with five periods of average quarterly price reductions of at least 6 months in duration over the past 75 months (table 16). Soybean meal has undergone seven periods of alternating average quarterly price reductions that were followed by average quarterly price increases (table 17). The average soybean-meal price for the first quarter of 1985 was the lowest of any for the past 25 quarters.

Table 18 shows the hog-to-corn price ratio, which is one measure of profitability for the hog producing industry. The ratio is the number of bushels of corn equal in value to 100 pounds of hog, live weight.

Table 19 shows the Iowa farrow-to-finish growers' profit or (loss). This is derived from deducting total farrowing and finishing costs from sales value. Sales value is defined as "the average monthly selling price of U.S. No. 1-2's, 200-240 pound barrows and gilts in the interior Iowa-Southern Minnesota market times a selling weight of 230 pounds. A 1.5 percent allowance for shrink has been built into the feed requirements with selling weight considered to be the pay weight after a short haul to market." 2/ The

---

1/ Soybean meal is a much less significant cost since it is used in far smaller quantities than corn.

2/ Estimated Returns from Farrowing and Finishing Hogs in Iowa, Publication M-1231, January 1983, p. 3, Cooperative Extension Service of Iowa State University of Science and Technology.

Table 16.--No. 2 yellow corn: Average cash prices at St. Louis, MO, by quarters, January 1979-March 1985

(Per bushel)

Year	January-March	April-June	July-September	October-December	Average
1979	$2.40	$2.63	$2.79	$2.59	$2.60
1980	2.56	2.60	3.19	3.49	2.96
1981	3.50	3.41	2.99	2.55	3.11
1982	2.64	2.77	2.47	2.35	2.56
1983	2.77	3.25	3.56	3.49	3.27
1984	3.42	3.59	3.28	2.79	3.27
1985	2.85	1/	1/	1/	1/

1/ Not available.

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

Table 17.--44-percent protein soybean meal: Prices at Decatur, IL, by quarters, January 1979-March 1985

(Per ton)

Year	January-March	April-June	July-September	October-December	Average
1979	$190	$194	$193	$183	$190
1980	173	175	210	242	200
1981	215	215	199	182	203
1982	189	189	171	170	180
1983	178	183	219	224	201
1984	194	184	151	138	167
1985	129	1/	1/	1/	1/

1/ Not available.

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

Table 18.--Hog-corn price ratio, U.S., by quarters, January 1979-March 1985

(Bushels of corn equal in value to 100 pounds of hog, liveweight)

Year	January-March	April-June	July-September	October-December	Average
1979	23.3	17.9	14.5	14.9	17.7
1980	14.7	12.3	15.4	14.7	14.3
1981	12.5	13.2	17.3	17.5	15.1
1982	18.9	21.4	26.1	25.5	23.0
1983	21.3	15.1	13.7	12.9	15.8
1984	14.6	14.3	16.0	18.0	15.7
1985	17.7	1/	1/	1/	1/

1/ Not available.

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

Table 19.--Iowa swine growers' farrow-to-finish profit or loss, 1/ by months, January 1980-March 1985

(Per head)

Month	1980	1981	1982	1983	1984	1985
January	-$9.18	-$14.97	$0.13	$26.47	-$4.68	$5.13
February	-9.18	-13.90	9.57	27.38	-12.81	5.26
March	-17.40	-20.83	9.45	10.11	-10.95	-5.41
April	-27.94	-20.22	15.72	0.55	-7.95	2/
May	-26.65	-15.94	28.76	-2.69	-8.68	2/
June	-14.87	-2.04	31.17	-7.50	-2.22	2/
July	2.71	1.99	32.16	-7.90	5.63	2/
August	11.15	2.41	40.24	-1.53	2.15	2/
September	4.87	1.10	40.77	-12.44	-7.87	2/
October	5.64	-5.25	28.76	-23.46	-11.74	2/
November	0.07	-10.48	24.32	-29.98	0.07	2/
December	-6.49	-12.79	27.93	-10.39	5.66	2/
Average	-7.27	-9.24	24.08	-2.62	-4.45	1.66

1/ Iowa farrow-to-finish growers' profit or loss is derived from deducting total farrowing and finishing costs from sales value.
2/ Not available.

Source: Estimated Returns from Farrowing and Finishing Hogs in Iowa, Publication M1231, Cooperative Extension Service of the Iowa State University of Science and Technology.

table depicts the profits and losses of Iowa swine growers, who grow in excess of 20 percent of the swine grown in the U.S. In the 63-month period from January 1980 to March 1985, Iowa swine growers experienced losses in 33 months.

Another measure of profitability is the difference between hog selling prices and production costs, i.e., net margins to hog growers. These margins are shown in table 20. Hog growers sustained negative net margins in 56 months out of the 75 months depicted in table 20.

Table 20.--Swine: Net margins 1/ to U.S. feeders, by months, January 1979-March 1985

(Per hundredweight)

Month	1979	1980	1981	1982	1983	1984	1985
January	$2.50	-$5.24	-$8.35	-$5.62	-$2.50	$1.94	-1.10
February	4.63	-1.94	-9.89	1.79	2.47	-.09	1.28
March	1.11	-7.10	-13.64	3.22	-.58	-1.24	-4.77
April	-2.19	-12.26	-8.40	6.98	-5.77	-1.00	2/
May	-2.64	-13.63	-8.61	11.21	-9.51	-4.40	2/
June	-11.89	-10.59	-4.46	8.56	-13.03	-6.32	2/
July	-14.12	.15	-2.05	3.14	-12.25	-6.92	2/
August	-14.18	8.41	-4.17	3.98	-5.92	-9.25	2/
September	-9.21	8.58	-3.49	2.54	-5.81	-10.18	2/
October	-8.68	8.09	-8.01	-.80	-5.60	-11.12	2/
November	-6.31	3.63	-9.02	-4.26	-5.93	-3.84	2/
December	-2.45	-4.28	-12.60	-5.06	-1.76	-0.86	2/

1/ Difference between price received by farmers for slaughter hogs and all costs (feeder animal, feed, labor and management, interest on purchase, and so forth) for raising feeder pigs from 40 pounds to a slaughter weight of 220 pounds.

2/ Not available.

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

Financial experience of U.S. packers

* * * packers, 1/ which accounted for * * * percent of total reported 1984 swine slaughter, furnished usable income-and-loss data on their operations producing pork and on overall establishment operations. Throughout the period under review there have been numerous plant closures and acquisitions of old plants by new ownership. Consequently, the sales volume of some packers has declined as plants were divested or closed. Also, new packing companies, which now have one or two years of operating experience, were formed during the period under review. Aggregate income-and-loss data on overall establishment operations for * * * are presented in table 21.

Pork operations.--* * * of the * * * packers provided income-and-loss data for all 3 years during 1982-84 (table 22).

1/ * * *.

* * * * * * * *

Aggregate sales, as reported by the * * * packers and presented in table 22, increased from $5.4 billion in 1982 to $6.6 billion in 1983, and then grew to $6.7 billion in 1984. * * *. * * *. During the interim period ended March 31, sales grew from $682 million in 1984 to $841 million in 1985, an increase of 23.3 percent. Operating income in 1982 was $21.4 million, or 0.4 percent of sales. Aggregate operating losses were incurred in 1983 and 1984, which amounted to $11.4 million and $14.7 million, respectively. The operating losses as a share of sales were 0.2 percent in both 1983 and 1984. The * * * packers reported an aggregate operating loss of $863,000, or 0.1 percent of sales, in the interim period ended March 31, 1984, then incurred an operating loss of $1.6 million, or 0.2 percent of sales, in the interim 1985 period.

* * * * * * * *

Operating income or (loss) margins for individual packers on their operations producing pork are presented in the following tabulation (in percent):

* * * * * * * *

There is no correlation between profitability and company size. * * *.

* * * * * * * *

Table 23, which contains data obtained from the American Meat Institute, presents the financial experience of hog packers over the past 5 years. There is no discernible long-term trend in revenues and expenses. However, the average yearly operating margin before overhead of hog packers fell sharply from $1.01 per live hundredweight (cwt) in 1980 to $0.52 in 1981, and to $0.21 in 1982. This margin rose to $0.42 in 1983, but again fell sharply in 1984 to -$0.46, when hog packers experienced profitable operations in only 1 out of 12 months. This was caused, at least in part, by the increased cost of hogs, which rose from the yearly average cost of $47.53 per live cwt in 1983 to $49.09 per live cwt for 1984, an increase of 3.3 percent. The 1985 year-to-date average value of swine declined during the first three months of 1985 from the 1984 average of $52.70 per live cwt to the year-to-date average of $51.51 per live cwt, representing a decrease of 2.3 percent. Over the same period, the cost of hogs decreased by 1.8 percent and operating expenses increased by 16.2 percent.

As shown in table 24, the hog slaughter business has not been particularly profitable, as evidenced by the industry's very low return on investment (earnings as a share of net worth), return on assets (earnings as a share of assets), and profit margins. The low returns and profits have contributed to a number of plant closings and some consolidations within the industry over the past 7 years.

Table 21.—Income-and-loss experience of U.S. packers 1/ on the overall operations of their establishments within which pork is produced, accounting years 1982-84, and interim periods ended March 31, 1984 and March 31, 1985

Item	* * *				* * * U.S. Packers 3/				
	1983	1984	Interim period ended Mar. 31—		1982	1983	1984	Interim period ended in March 31—	
			1984	1985				1984 4/	1985 4/
Net sales———1,000 dollars—	***	***	***	***	8,621,315	9,243,258	9,670,283	1,680,177	1,871,860
Cost of goods sold———do——	***	***	***	***	8,309,911	8,906,986	9,325,266	1,596,964	1,795,149
Gross profit or (loss)—do——	***	***	***	***	311,404	336,272	345,017	83,213	76,711
General, selling, and administrative expenses——do——	***	***	***	***	225,673	253,987	269,008	60,663	65,680
Operating income or (loss)———————do——	***	***	***	***	85,731	82,285	76,009	22,550	11,031
Depreciation and amortization expense included above———————do——	***	***	***	***	54,575	67,108	74,145	28,617	30,823
As a share of net sales:									
Cost of goods sold-percent—	***	***	***	***	96.4	96.4	96.4	95.0	95.9
Gross profit or (loss) do——	***	***	***	***	3.6	3.6	3.6	5.0	4.1
General, selling, and administrative expenses do——	***	***	***	***	2.6	2.7	2.8	3.6	3.5
Operating income or (loss)———————do——	***	***	***	***	1.0	0.9	0.8	1.3	0.6

1/ U.S. packers submitting usable data accounted for [* * *] percent total of swine slaughter in 1984 as reported in response to the questionnaires of the U.S. International Trade Commission.
2/ * * *.
3/ * * *.
4/ * * *.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 22.—Income-and-loss experience of U.S. packers 1/ on their operations producing pork, accounting years 1982-84, and interim periods ended March 31, 1984, and March 31,1985

Item	* * * 2/				* * * U.S. Packers 3/				
	1983	1984	Interim period ended March 31—		1982	1983	1984	Interim period ended in March 31—	
			1984	1985				1984 4/	1985 4/
Net sales———1,000 dollars—	***	***	***	***	5,404,939	6,572,477	6,745,328	681,879	840,765
Cost of goods sold———do———	***	***	***	***	5,296,714	6,471,018	6,637,028	653,329	811,806
Gross profit or (loss)-do———	***	***	***	***	108,225	101,459	108,300	28,550	28,959
General, selling, and administrative expenses——do———	***	***	***	***	86,874	112,884	123,027	29,413	30,575
Operating income or (loss)——————————do———	***	***	***	***	21,351	(11,425)	(14,727)	(863)	(1,616)
Depreciation and amortization expense included above——————————do———	***	***	***	***	43,554	52,796	58,632	24,916	26,789
As a share of net sales:									
Cost of goods sold-percent-	***	***	***	***	98.0	98.5	98.4	95.8	96.6
Gross profit or (loss) do———	***	***	***	***	2.0	1.5	1.6	4.2	3.4
General, selling and administrative expenses do———	***	***	***	***	1.6	1.7	1.8	4.3	3.6
Operating income or (loss)——————————do———	***	***	***	***	0.4	(0.2)	(0.2)	(0.1)	(0.2)

1/ U.S. packers submitting usable data accounted for [* * *] percent total of swine slaughter in 1984 as reported in response to the questionnaires of the U.S. International Trade Commission.

2/ * * *.

3/ * * *.

4/ * * *.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 23.--Average operating margins before overhead by hog packers, 1/ by months, January 1980-March 1985

(Per live hundredweight)

Month	Product value	Cost of hogs	Operating expenses	Operating margin before overhead
1980:				
January	$43.48	$37.74	$4.15	$1.59
February	42.56	37.79	4.08	.69
March	41.15	36.25	4.16	.74
April	35.92	28.51	4.29	3.12
May	35.16	29.50	4.14	1.52
June	34.65	30.13	4.15	.37
July	46.25	41.76	4.34	.15
August	50.22	45.50	4.41	.31
September	53.35	46.34	4.35	2.66
October	53.47	48.32	4.38	.77
November	52.41	47.33	4.55	.53
December	50.00	45.80	4.50	(.30)
Average	44.89	39.58	4.29	1.01
1981:				
January	47.76	42.10	4.67	.99
February	46.39	41.54	4.66	.19
March	45.23	40.45	4.47	.31
April	45.82	39.58	4.44	1.80
May	45.20	40.10	4.51	.59
June	52.42	47.63	4.46	.33
July	54.95	51.46	4.73	(1.24)
August	53.51	49.46	4.84	(.79)
September	55.25	49.95	5.05	.25
October	52.64	47.09	4.88	.67
November	48.86	43.12	4.61	1.14
December	46.73	39.91	4.87	1.95
Average	49.56	44.37	4.68	.52
1982:				
January	48.53	40.51	4.99	3.03
February	55.29	50.65	4.49	.15
March	53.34	48.32	4.69	.33
April	56.26	51.15	4.65	.46
May	59.10	55.83	4.51	(1.24)
June	61.06	56.97	4.24	(.15)
July	63.91	60.07	4.88	(1.04)
August	65.51	61.10	4.64	(.23)
September	69.57	64.58	4.85	.14
October	63.99	59.43	4.47	.09
November	59.94	53.47	4.35	1.72
December	57.97	54.36	4.37	(.76)
Average	59.50	54.70	4.59	.21

See footnote at end of table.

Table 23.--Average operating margins before overhead by hog packers, 1/ by months, January 1980-March 1985-Continued

(Per live hundredweight)

Month	Product value	Cost of hogs	Operating expenses	Operating margin before overhead
1983:				
January	$59.07	$54.90	$4.23	$(.06)
February	62.04	59.01	4.30	(1.27)
March	57.03	52.77	4.13	.13
April	53.42	48.38	4.26	.78
May	51.51	47.07	4.14	.30
June	51.26	46.16	4.13	.97
July	49.15	44.78	4.29	.08
August	52.39	47.68	4.35	.36
September	50.34	46.21	4.21	(.08)
October	47.47	43.34	4.01	.12
November	44.45	38.43	3.90	2.12
December	46.99	41.63	3.73	1.64
Average	52.09	47.53	4.14	.42
1984:				
January	53.57	49.64	4.02	(.09)
February	51.54	48.80	3.89	(1.15)
March	48.81	44.34	3.67	.80
April	52.00	48.65	3.72	(.37)
May	51.74	48.31	3.70	(.27)
June	52.99	49.68	3.91	(.60)
July	58.19	54.44	3.96	(.21)
August	56.37	53.34	3.92	(.89)
September	51.74	48.62	3.87	(.75)
October	48.69	44.34	4.62	(.27)
November	53.04	48.64	4.71	(.31)
December	53.76	50.32	4.89	(1.45)
Average	52.70	49.09	4.07	(.46)
1985:				
January	52.16	49.22	4.68	(1.74)
February	53.49	50.62	4.81	(1.94)
March	48.88	44.80	4.69	(.61)
Year to date average	51.51	48.21	4.73	(1.43)

1/ Represents approximately 30 percent of hog slaughter in the United States at between 18 to 26 plants.

Source: Compiled from statistics of the American Meat Institute.

In comparison with beef packers and all manufacturers, hog packers have performed poorly.

Capital expenditures and research and development expenses by packers.--* * * U.S. packers supplied information on their capital

Table 24.--Earnings as a share of sales, assets, and net worth: U.S. pork packers, beef packers, and all manufacturing companies, 1981-83

(In Percent)

Item	1981	1982	1983
Earnings as a share of sales			
Pork packers	0.7	1.0	0.4
Beef packers	.6	.8	.6
All manufacturers	4.7	3.5	4.1
Earnings as a share of assets			
Pork packers	3.0	4.6	1.9
Beef packers	3.6	5.3	5.1
All manufacturers	6.5	4.4	5.1
Earnings as a share of net worth			
Pork packers	6.1	9.4	3.9
Beef packers	7.5	10.4	11.1
All manufacturers	13.3	9.1	10.3

Source: American Meat Institute, Annual Financial Review of the Meat Packing Industry, 1983, p. 13.

expenditures for land, buildings, machinery, and equipment used in the production of pork, and furnished data on their research and development expenses. Capital expenditures declined from $82.4 million in 1982 to $42.9 million in 1983, then rose to $49.9 million in 1984. Such expenditures increased from $7.2 million during the January-March interim period in 1984 to $7.3 million in the corresponding period of 1985. Research and development expenses rose from $351,000 in 1982 to $1.8 million in 1983, and remained at the $1.8 million level in 1984. Research and development expenses amounted to $450,000 during the January-March period of 1984 and decreased to $375,000 during the corresponding period of 1985.

The packers' capital expenditures and research and development expenses are shown in the following tabulation (in thousands of dollars):

	Capital expenditures	Research and development expenses
1982	1/ 82,383	5/ 351
1983	2/ 42,913	6/ 1,841
1984	3/ 49,901	6/ 1,805
January-March--		
1984	4/ $7,245	6/ 450
1985	7/ $7,275	6/ 375

1/ Data are for * * * firms; * * * firms reported none.
2/ Data are for * * * firms; * * * firm reported none.
3/ Data are for * * * firms.
4/ Data are for * * * firms; * * * firms reported none.
5/ Data are for * * * firms; * * * firms reported none.
6/ Data are for * * * firms; * * * firms reported none.
7/ Data are for * * * firms; * * * firms reported none.

Capital and investment.--* * * U.S. packers, accounting for * * * percent of reported U.S. swine slaughter, provided questionnaire comments as to the actual and potential negative effects of imported live swine and pork on their firm's growth, investment, or ability to raise capital. Their verbatim comments are provided in appendix F.

The Question of Threat of Material Injury

In its examination of the question of threat of material injury to an industry in the United States, the Commission may take into consideration such factors as the rate of increase of the subsidized imports, the rate of increase of U.S. market penetration by such imports, the quantities of such imports held in inventory in the United States, and the capacity of producers in Canada to generate exports (including the availability of export markets other than the United States).

Trends in imports and U.S. market penetration are discussed in the section of this report that addresses the causal relationship between the alleged injury and the subsidized imports. Information regarding the capacity of the Canadian producers to generate exports is discussed in the section of this report that covers the Canadian industry.

U.S. inventories of Canadian pork were reported by only one packer during the final investigation. These inventories totaled * * * pounds as of December 31, 1984, representing only a fraction of domestic shipments. 1/

Consideration of the Causal Relationship Between Alleged Material Injury or the Threat Thereof and the Subsidized Imports

U.S. imports

Almost all U.S. imports of swine originate in Canada (table 25). U.S. imports of Canadian swine more than doubled from 1981 to 1982, increased by 52

Table 25.--Live swine: U.S. imports for consumption, by principal sources, 1981-84, January-March 1984, and January-March 1985

(Number of swine)

Source	1981	1982	1983	1984	January-March--	
					1984	1985
Canada	145,652	294,933	447,391	1,322,015	274,404	540,114
Mexico	0	0	74	0	0	0
Ireland	43	4	0	0	0	0
All other	0	0	0	2	0	0
Total, all countries	145,695	294,937	447,465	1,322,017	274,404	540,114

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

1/ * * * percent.

percent in 1983, and almost tripled from 1983 to 1984. During January-March 1985, imports of Canadian swine increased by 97 percent compared with those in January-March 1984.

Imports of fresh, chilled, or frozen pork from all sources increased by 28 percent from 1981 to 1982, but then declined by 3 percent in 1983 (table 26). Pork imports increased by 71 percent in 1984 and by 86 percent in January-March 1985 compared with those in January-March 1984.

Table 26.--Pork: U.S. imports for consumption, 1981-84, January-March 1984, and January-March 1985

(In thousands of pounds)

Source	1981	1982	1983	1984	January-March--	
					1984	1985
Canada	191,700	269,122	265,775	344,997	81,514	107,867
Finland	0	0	1,504	2,730	512	920
Sweden	0	0	539	12,657	1,874	2,342
Denmark	24,258	6,618	0	96,916	42	45,180
All other	590	454	497	598	119	318
Total, all countries	216,548	276,194	268,314	457,898	84,061	156,627

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

U.S. imports of fresh, chilled, and frozen meats (including pork) from Denmark were prohibited in the United States beginning in March 1982 because of an outbreak of foot-and-mouth disease in that country. The prohibition remained in effect until January 1984.

Imports of fresh, chilled, or frozen pork from Canada, again the leading exporter of this product to the United States, increased by 40 percent from 1981 to 1982. These imports declined by 1 percent in 1983 and then rose by 30 percent in 1984, and by 32 percent in January-March 1985 compared with those imports in January-March 1984.

U.S. market penetration

As stated previously, Canada accounted for virtually all U.S. imports of swine during the period examined. Market penetration by imports of Canadian swine increased steadily from 0.2 percent in 1981 to 1.6 percent in 1984 (table 27). Canadian swine imports accounted for 2.6 percent of apparent U.S. consumption in January-March 1985.

Table 27.--Live swine: Ratio of shipments of U.S.-produced swine and imports of Canadian swine to U.S. consumption, 1981-84, January-March 1984, and January-March 1985

(In percent)

Item	1981	1982	1983	1984	January-March--	
					1984	1985
U.S. produced	99.8	99.6	99.5	98.4	98.7	97.4
Imported from Canada	.2	.4	.5	1.6	1.3	2.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Consumption (commercial slaughter), compiled from official statistics of the USDA; imports, compiled from official statistics of the U.S. Department of Commerce; shipments of U.S.-produced swine calculated from commercial slaughter minus imports.

Canada was also the principal supplier of imported pork consumed in the U.S. market, accounting for about 75 percent of these imports during the period examined. Fresh, chilled, or frozen pork imports from Canada captured 1.2 percent of the U.S. market in 1981 and rose to 1.9 percent in 1982 (table 28). Market share held by Canada fell to 1.7 percent in 1983, but then increased to 2.2 percent in 1984 and to 2.8 percent in January-March 1985. Denmark, Sweden, and Finland also increased their market share in 1984 and again in January-March 1985. Imports of pork from these three countries and from all other sources accounted for 0.7 percent of U.S. consumption in 1984 and for 1.3 percent during January-March 1985.

Prices

This section discusses the factors determining prices of live swine and presents recent trends in quarterly prices of domestic and Canadian live swine and pork products. The price data presented in this section were obtained from both U.S. and Canadian Government publications, and from questionnaire responses from U.S. packers.

Price determinants.--Many factors have an effect on the price of live swine. Empirical research indicates that large supplies and low prices of competing products such as beef or chicken tend to result in a reduced demand for pork and lower prices of pork products and live swine. Similarly, a reduced availability and higher prices of these substitutes have the opposite effect. 1/ There is also evidence that there is a statistically significant

1/ A fairly recent study of the effects of substitutes on the price of pork by Curtis Braschler, entitled, "The Changing Demand Structure for Pork and Beef in the 1970's: Implications for the 1980's" appeared in the December 1983, issue of the Southern Journal of Agricultural Economics. Although the study focused on the retail demand for pork, the conclusions are probably also applicable in the case of live swine.

Table 28.--Pork: Ratio of shipments of fresh, chilled, or frozen pork and all pork 1/ imported from Canada to U.S. consumption, 1981-84, January-March 1984, and January-March 1985

(In percent)

Item	1981	1982	1983	1984	January-March--	
					1984	1985
Pork from Canada:						
Fresh, chilled, or frozen	1.2	1.9	1.7	2.2	2.1	2.8
All pork	1.4	2.3	2.3	3.8	3.4	5.3

1/ Includes pork from Canadian swine (carcass weight equivalent) and imports of pork from Canada.

Source: Consumption, compiled from official statistics of the USDA; imports, compiled from official statistics of the U.S. Department of Commerce; shipments of pork produced from U.S. swine calculated by subtracting imports (carcass weight equivalent of live swine plus pork) from consumption.

relationship between the price of pork and aggregate consumer income. In periods of rising income, demand and prices tend to increase, and in periods of declining income they tend to decrease. However, since research indicates that the demand for pork is relatively income inelastic, the effects of changes in income on prices of live swine tend to be small. The shift in consumer tastes that has resulted in reduced consumption of red meats during recent years has probably tended to depress pork prices, though the effects cannot be readily observed from annual price data. The following tabulation shows that the expenditures per person as a share of consumer income spent on both pork and beef declined significantly between 1979 and 1984 (in percent):

	Beef	Pork
1979	2.41	1.26
1980	2.26	1.18
1981	2.07	1.11
1982	2.00	1.11
1983	1.88	1.06
1984	1.73	.92

Source: March 1985 issue of the Livestock and Poultry Outlook and Situation Report, published by the USDA.

Although prices of substitutes, aggregate income, and changes in tastes influence the price of live swine, the interaction between the demand for and the supply of live swine tend to be the major price determinants for this product. Although estimates vary, most studies have indicated that the demand

for live swine has tended to be relatively price inelastic, at least in the short run. 1/ As a result, the price of live swine appears to be sensitive to variations in output. 2/ This is evident from the annual price and production data shown in figure 3.

The data indicate that large increases in output tend to depress prices while reduced levels of hog production generally result in higher prices. The price of slaughter hogs and the level of production moved in opposite directions in 8 out of the 11 years from 1973 through 1984. This pattern has prevailed throughout the past 4 years. After reaching production levels of over 100 million head in 1979 and 1980 the output of live hogs declined by 16 percent during the next 2 years. This sharp decline in output was accompanied by a 37-percent increase in the average price. As output recovered in 1983, rising by 9.5 percent over that of 1982, the price declined by 6 percent. During 1984 production decreased by 6 percent and the price increased by 4.5 percent.

Whereas production affects price, it is also likely that the price in a given year often influences future production levels. Low prices probably encourage cutbacks in future output, but high prices are likely to result in increases in production. Thus, the low price that prevailed in 1980 was probably partly responsible for the reduction in output in 1981. Similarly, the sharp increase in price that occurred in 1982 probably created an incentive to expand output in 1983. However, production decisions are also influenced by fluctuations in the price of corn and other feeds and other costs of production. In addition, biological factors in hog production also have a significant effect on levels of production.

Methods for pricing slaughter hogs include payment on the basis of carcass grade and weight (determined by measurements made after slaughter) and payment on the basis of live weight, with the purchaser judging value from visual inspection. 3/ The majority of slaughter hogs are priced on the basis of live weight.

Price data.--Delivered prices were requested for each packing firm's largest purchase of the U.S. and Canadian product during the second week of each month during October 1983 through March 1985 for the following types of live swine and pork products:

1/ Many estimates of price elasticities of demand for pork products and live swine have been developed during the past 30 years. Although estimates range widely owing to a variety of model specifications and different time periods for estimation, a survey of the literature by the staff indicates that in most cases the estimated values were less than one. Because of the increasing variety of substitutes for red meat that have become available in recent years, it is possible that the demand for pork is becoming more price elastic.

2/ The price effects of adding Canadian imports to the domestic supply are considered in app. G.

3/ Roy N. Van Arsdall and Kenneth E. Nelson, U.S. Hog Industry, Washington, DC: Economic Research Service, USDA, June 1984 (Agricultural (Economic Report No. 511), p. 57.

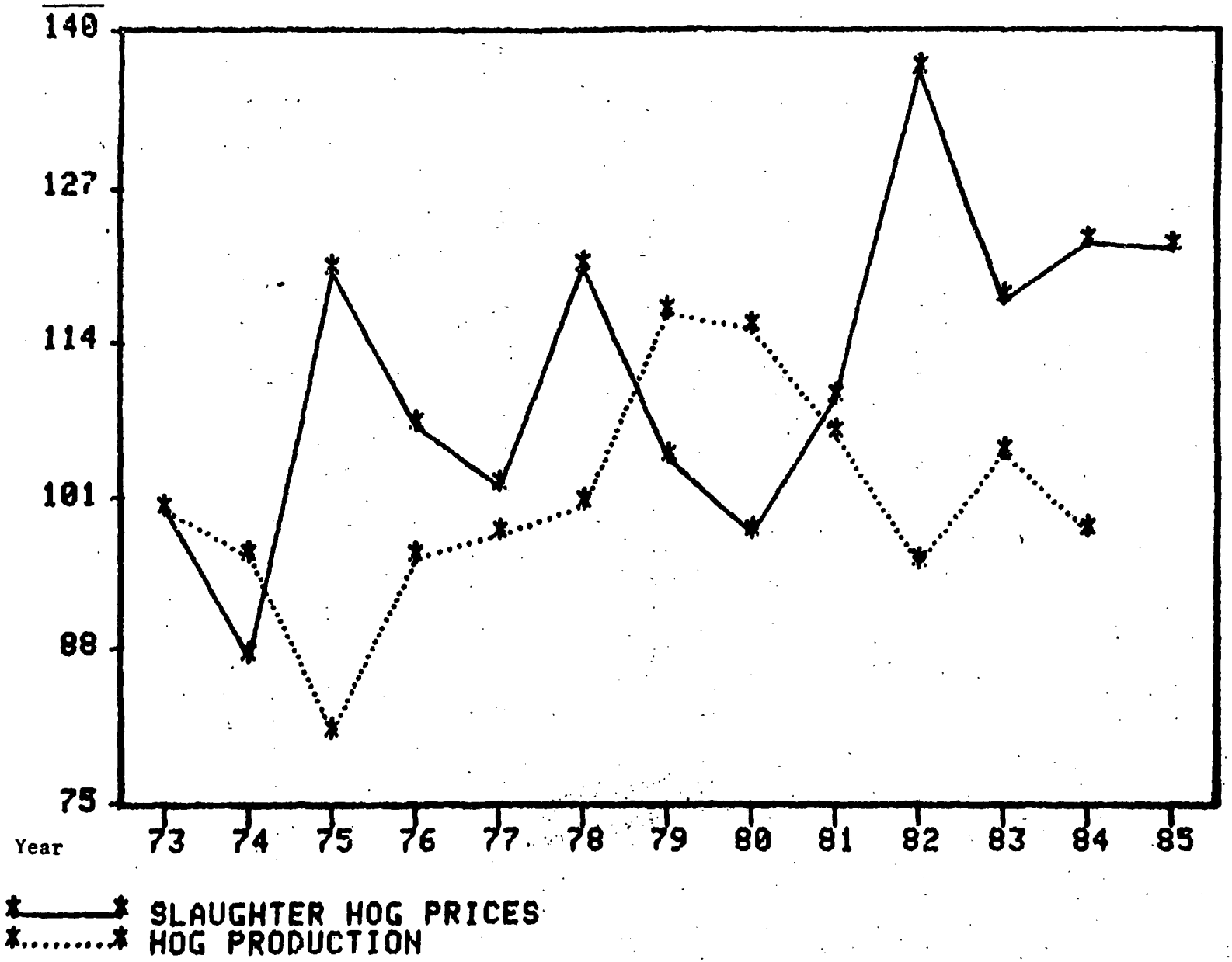


Figure 3.—Indexes of U.S. slaughter hog prices and hog production in the United States, 1973-March 1985, (1973=100)

Source: U.S.D.A., Economic Research Service, Livestock and Poultry: Outlook and Situation Report (LPS-15), March 1985. Commission staff calculations for indexing. Slaughter hog prices for 1985 reflect January 1985 only. Slaughter hog prices are not adjusted for inflation.

Live swine:

Product 1. Barrows or gilts -- Barrows are male swine that have been castrated a few days after birth. Gilts are female swine that have not farrowed.

Product 2. Sow -- a female swine that has farrowed.

Pork products:

Product 3. Pork leg (fresh ham) -- includes the rump, center, or shank sections of the leg.

Product 4. Pork belly -- includes that portion of the center section of the side that remains after the loin and spareribs have been removed.

Transaction prices for live swine and pork products are derived from 11 questionnaire responses from U.S. packers and processors. Published price data for live swine are also shown in this section for purposes of comparison. The staff compiled statistics published by the U.S. Government and the Ontario Pork Producers' Marketing Board on monthly market prices for barrows and gilts sold in the United States and in Ontario, Canada, during January 1982-March 1985. Barrows and gilts accounted for 95 percent of all swine slaughtered in the United States, as well as a similar share of all swine slaughtered in Canada. 1/ Therefore, these data show price trends for the major share of live swine in the two principal North American markets. Precise price comparisons are not possible for these published prices since Canadian data are for the province of Ontario only. 2/

Price trends for live swine (barrows, gilts, and sows).--Published market prices for U.S.- and Canadian-produced barrows and gilts closely paralleled each other during the September 1982-May 1985 period. They generally increased through September of 1982, decreased until late 1983, and increased again until August 1984, temporarily declined in October 1984, increased through February 1985, and then declined again (table 29).

The published U.S. price for barrows and gilts increased from $46 per hundredweight in January 1982 to $63 in September 1982, and then declined during the next 14 months, with some fluctuations, to $39 in November 1983 (table 29 and fig. 4). It increased gradually to $52 per hundredweight in August 1984, and then declined irregularly to $42.17 in May 1985.

1/ Sows account for 4 percent and boars for 1 percent of all U.S. swine slaughtered. USDA, Statistical Research Service, Livestock Slaughter, August 1984; staff telephone conversation with J.A. Rollings of the Ontario Pork Producers' Marketing Board, Nov. 28, 1984.

2/ Ontario accounted for 33.2 percent of total Canadian hog production in 1983 and 30.5 percent of total Canadian hog production in 1984. Ontario Pork Producers' Marketing Board and Ontario Hog Producers' Association, Report to the Forty-Third Annual Meeting, March 1984; Ontario Pork Producers' Marketing Board and Ontario Hog Producers' Association, Report to the Forty-Fourth Annual Meeting, March 1985.

Table 29.--Barrows and gilts: Published market prices of U.S.-produced and Ontario, Canada-produced barrows and gilts, by months, January 1982-May 1985

(Per hundredweight)

Period	Canadian	United States 1/
1982:		
January	$45.68	$45.63
February	45.91	49.29
March	49.35	49.38
April	52.98	52.08
May	59.24	58.14
June	62.07	59.16
July	61.91	59.83
August	63.03	63.13
September	63.02	63.01
October	58.12	56.94
November	52.83	53.49
December	55.00	54.94
1983:		
January	56.19	56.78
February	57.65	57.27
March	52.77	50.94
April	48.56	47.50
May	48.38	47.02
June	46.67	45.71
July	45.17	45.66
August	47.30	49.35
September	45.98	45.70
October	41.64	41.38
November	40.56	38.79
December	42.88	46.37
1984:		
January	45.32	49.91
February	43.87	46.31
March	43.93	46.83
April	46.21	48.30
May	47.36	48.06
June	49.72	50.36
July	53.22	54.04
August	52.92	52.26
September	47.94	47.33
October	44.91	44.50
November	48.96	48.34
December	49.91	50.12

See footnotes at end of table.

Table 29.--Barrows and gilts: Published market prices of U.S.-produced and Ontario, Canada-produced barrows and gilts, by months, January 1982-May 1985--Continued

(Per hundredweight)

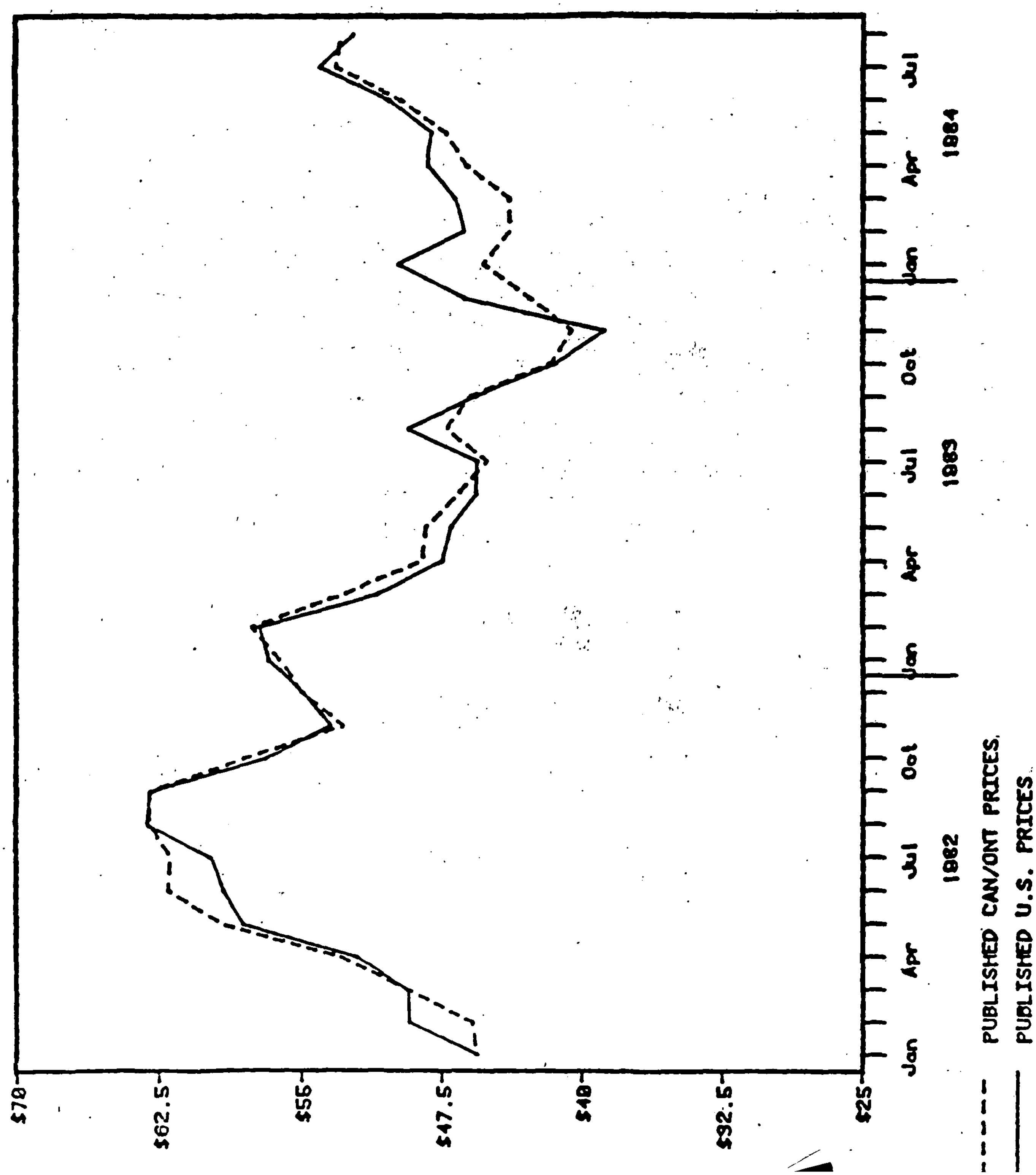
Period	Canadian	United States 1/
1985:		
January	$50.04	$49.05
February	50.32	49.98
March	42.45	43.93
April	41.29	41.41
May	42.44	42.17

1/ A weighted-average 7-market price for the following U.S. auction markets: St. Louis, Kansas City, Omaha, Sioux City, South St. Joseph, South St. Paul, and Indianapolis.

Source: USDA, Economic Research Service, Livestock and Meat Statistics: Supplement for 1982 (Statistical Bulletin No. 5422); USDA, Economic Research Service, Livestock and Poultry: Outlook and Situation Report (LPS-13, October 1984); USDA, Economic Research Service, Livestock and Poultry: Outlook and Situation Report (LPS-15, March 1985); Commission staff telephone discussion with Mr. Alan Baker, Agricultural Economist with the Economic Research Service, USDA, May 17, 1985; Commission staff telephone discussion with Mr. Leland Southard, Agricultural Economist with the Economic Research Service, USDA, June 27, 1985; Ontario Pork Producers' Marketing Board and Ontario Hog Producers' Association, Report to the Forty-Third Annual Meeting, March 13 and 14, 1984; Ontario Pork Producers' Marketing Board and Ontario Hog Producers' Association, Report to the Forty-Fourth Annual Meeting, March 13 and 14, 1985; International Monetary Fund, International Financial Statistics, May 1985 (for exchange-rate conversion tables).

Note.--All figures are in U.S. dollars and cents.

Figure 4.—Published prices for barrows and gilts, U.S. dollars and cents per cwt, January 1982 to August 1984.



Source: Published sources; see table

The published market price for Canadian (Ontario) barrows and gilts closely paralleled the U.S. published market price for this product. It increased from $46 in January 1982 to $63 in September 1982, and and then decreased irregularly to $41 in November 1983. It increased to $53 in August 1984, and then declined irregularly to $42.44 in May 1985, or by 20 percent.

Weighted-average prices for U.S.-produced and Canadian-produced barrows and gilts, which were developed from questionnaire responses, moved in the same general direction as the published prices during the October 1983-March 1985 period. They increased from October 1983 to January 1984, decreased in February 1984, increased through June 1984, decreased through October 1984, increased through December 1984, and then decreased again (table 30).

The U.S. weighted-average price for barrows and gilts increased from $41.69 in October 1983 to $49.84 in January 1984, and then declined to $46.33 in February 1984 before increasing to $54.76 in July 1984. It declined to $44.54 in October 1984, and then increased to $50.24 in December 1984 before decreasing to $44.90 in March 1985.

The Canadian weighted-average price for barrows and gilts increased from $40.69 in October 1983 to $50.08 in January 1984. It declined to $46.77 in March 1984, and then increased irregularly to $53.34 in July 1984. It declined to $44.71 in October 1984 and then increased to $50.61 in December 1984 before decreasing to $44.78 in March 1985.

Margins of underselling were not computed for live swine due to the fact that they are largely a fungible commodity in the North American market. As counsel for the petitioners indicated during the hearing for this investigation: "It is true that the U.S. and Canadian prices are close together and linked and generally tend to follow each other up and down." 1/ The close association between U.S. and Canadian prices is evident in both published and Commission price data.

The Commission received only three packers' questionnaires that reported purchases of sows. 2/ Of these three, only one respondent reported purchases of Canadian-produced sows, although all three reported purchases of U.S.-produced sows. U.S.-produced and Canadian-produced sow prices closely paralleled each other during the October 1983-March 1985 period (table 31). They decreased from October 1983 to December 1983, and then increased irregularly through July-August 1984 before declining irregularly through March 1985. The weighted-average price for U.S.-produced sows decreased from $36.57 in October 1983 to $33.74 in December 1983 and then increased irregularly to $45.07 in July 1984 before declining irregularly to $39.32 in March 1985. The price for Canadian-produced sows decreased from * * * in October 1983 to * * * in November 1983, and then irregularly increased to * * * in August 1984, before declining irregularly to * * * in March 1985.

Price trends for pork products.--Six U.S. packer/processors reported prices for U.S.-produced pork legs (fresh ham), although only four of these reported prices for most months during October 1983-March 1985. Three U.S.

1/ Transcript of the hearing, p. 58.

2/ Sows account for only 4 percent of total U.S. swine slaughter, according to USDA statistics.

Table 30.--Barrows and gilts: Weighted-average prices 1/ of U.S.- and Canadian-produced barrows and gilts purchased by packers, by months, October 1983-March 1985

Period	Canadian produced	U.S. produced
	Per hundredweight	
1983:		
October	$40.69	$41.69
November	39.11	38.26
December	46.40	45.19
1984:		
January	50.08	49.84
February	46.92	49.58
March	46.77	46.33
April	49.04	48.26
May	49.28	48.30
June	46.88	49.73
July	53.34	54.76
August	52.79	52.11
September	48.98	48.20
October	44.71	44.54
November	47.17	47.42
December	50.61	50.24
1985:		
January	49.94	49.08
February	49.73	49.54
March	44.78	44.90

1/ Prices are in U.S. dollars and cents.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 31.--Sows: Weighted-average prices of U.S.- and Canadian-produced 1/ sows purchased by packers, by months, October 1983-March 1985

Period	Canadian produced	U.S. produced
	Per hundredweight	
1983:		
October	***	36.57
November	***	32.20
December	***	33.74
1984:		
January	***	41.36
February	***	42.15
March	***	38.80
April	***	42.82
May	***	43.10
June	***	42.20
July	***	45.07
August	***	43.21
September	***	41.19
October	***	38.65
November	***	39.86
December	***	39.96
1985:		
January	***	40.26
February	***	42.62
March	***	39.32

1/ Represents the response of only 1 packer.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

packer/processors reported prices for Canadian-produced pork legs, although only one of these reported prices on such purchases for most months during the October 1983-March 1985 period. Weighted-average prices for U.S.-produced pork legs fluctuated widely during October 1983-March 1985 (table 32). The price of U.S.-produced pork legs appeared to follow 3 or 4 month cycles during the October 1983-March 1985 period, peaking at $90.06 in December 1983, $78.55 in April 1984, $81.02 in August 1984, $91.19 in November 1984, and $74.96 in February 1984. The price of Canadian-produced pork legs followed similar trends and generally peaked during the same or adjacent months. It peaked at * * * in December 1983, * * * in April 1984, * * * in August 1984, and * * * in November 1984.

Five firms reported purchases of U.S.-produced pork bellies, although just three provided data for the entire October 1983-March 1985 period. Only one respondent reported purchases of Canadian-produced pork bellies. The data show that prices of U.S.-produced and Canadian-produced pork bellies fluctuated widely throughout the October 1983-March 1985 period, but unlike pork legs, the prices did not display any consistent pattern over time. The weighted-average price of U.S.-produced pork bellies increased irregularly from $51.42 in October 1983 to $75.59 in June 1984 (table 33). It declined during the next few months and then increased to 72.80 in January 1985. The reported price of the Canadian-produced pork bellies also increased irregularly from * * * in October 1983 to * * * in August 1984, or by 32 percent. It continued to increase irregularly to * * * in January 1985, and then stayed in this range through March 1985.

Transportation costs

In the United States transportation costs for live swine are usually borne by the producer. 1/ In Canada, provincial marketing boards " absorb" the costs of transporting swine. 2/ Such costs were estimated to average $1 per hundredweight in 1983 using truck transport. 3/ Additionally, since hogs tend to lose weight while they are being transported, the value of the product to the producer will be greatest when transportation distances are minimized.

Several U.S. pork processors operating near the Canadian border indicated that a geographically close supply of pork lowers their costs and enhances the quality of their end product. 4/ These processors indicated that the closeness of the Canadian pork suppliers affords them a fresher product than could be

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1/ Transcript of public conference held during the preliminary investigation, pp. 96-97.

2/ Conference transcript, p. 178.

3/ Ontario Pork Producers' Marketing Board and Ontario Hog Producers' Assocation, Report to the Forty-Third Annual Meeting, Mar. 13 and 14, 1984, p. 16; staff telephone discussion with USDA Agricultural Economist, Economic Research Service, Nov. 29, 1984.

4/ Bar-S Foods Co. (letter, Nov. 21, 1984), which operated a meat processing plant in Seattle, WA; Jos. Kirschner Co., Inc. (letter, Nov. 16, 1984), which operates a processing plant in Augusta, ME; Joseph DeCosta, Inc. (telegram, Nov. 28, 1984), which operates a processing plant in Woburn, MA.

Table 32.--Pork legs (fresh ham): Weighted-average prices of U.S.-produced and Canadian-produced pork legs purchased by packers and processors, by months, October 1983-March 1985

Period	Canadian produced		U.S. produced
	Per hundredweight		
1983:			
October	1/	***	$75.64
November	1/	***	78.25
December	1/	***	90.06
1984:			
January	1/	***	72.68
February	1/	***	71.32
March	1/	***	75.49
April	1/	***	78.55
May	1/	***	76.99
June	1/	***	73.73
July	1/	***	71.46
August	1/	***	81.02
September	1/	***	75.86
October	1/	***	78.93
November	1/	***	97.84
December	1/	***	105.61
1985:			
January		73.76	74.69
February		78.54	78.71
March	1/	***	72.54

1/ Represents response of only 1 packer.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 33.--Pork bellies: Weighted-average prices of U.S.- and Canadian-produced pork bellies purchased by packers and processors, by months, October 1983-March 1985

Period	Canadian produced 1/	U.S. produced
	Per hundredweight	
1983:		
October	***	$51.42
November	***	55.31
December	***	58.96
1984:		
January	***	70.20
February	***	57.50
March	***	58.37
April	***	64.67
May	***	57.53
June	***	75.59
July	***	67.59
August	***	60.70
September	***	61.17
October	***	55.67
November	***	63.72
December	***	68.60
1985:		
January	***	72.80
February	***	70.74
March	***	69.28

1/ Represents the response of only 1 packer.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

obtained from U.S. meatpackers. 1/ Other U.S. processors would gain similar benefits from locations close to U.S. meatpackers.

Exchange rates

Quarterly data reported by the International Monetary Fund indicate that during the period January 1982 through June 1985 the nominal value of the Canadian dollar depreciated relative to its U.S. counterpart in 8 out of 14 quarters by 11.4 percent overall (table 34). The level of inflation in Canada was appreciably higher than in the United States over the 13-quarter period ended March 1985. Therefore, the international purchasing power of the Canadian currency depreciated by 3.7 percent relative to the U.S. dollar--significantly less than the apparent depreciation of 10.7 percent represented by the nominal devaluation.

1/ Letter, Bar-S Food Co., Jos. Kirschner Co; telegram, Joseph De Costa, Inc.

Table 34.--Exchange rates 1/.--Nominal-exchange-rate equivalents of the Canadian dollar in U.S. dollars, real-exchange-rate equivalents, and producer price indicators in the United States and Canada, 2/ indexed by quarters, January 1982-June 1985

(January-March 1982=100)

Period	U.S. producer price index	Canadian producer price index	Nominal-exchange-rate index	Real-exchange-rate index 3/
			-----U.S. $ per can$------	
1982:				
January-March	100.0	100.0	100.0	100.0
April-June	100.1	101.9	97.1	98.9
July-September	100.5	102.7	96.7	98.8
October-December	100.6	103.1	98.2	100.5
1983:				
January-March	100.7	103.8	98.5	101.5
April-June	101.0	105.3	98.2	102.4
July-September	102.0	106.2	98.1	102.1
October-December	102.5	106.6	97.6	101.5
1984:				
January-March	103.6	108.4	96.3	100.7
April-June	104.3	109.7	93.5	98.3
July-September	104.1	110.4	92.0	97.6
October-December	103.8	110.6	91.7	97.8
1985:				
January-March	103.6	111.7	89.3	96.3
April-June	4/ 103.6	5/	4/ 88.6	5/

1/ Exchange rates expressed in U.S. dollars per unit of Canadian currency.

2/ Producer price indicators--intended to measure final product prices--are based on average quarterly indexes presented in line 63 of the International Financial Statistics.

3/ The real value of a currency is the nominal value adjusted for the difference between inflation rates as measured by the producer price index in the United States and the foreign country. Producer prices in the United States increased by 3.2 percent during the period January 1982 through March 1985 compared with an 11.7-percent increase in Canada during the same period.

4/ Based on preliminary data for April only.

5/ Not available.

Source: International Monetary Fund, International Financial Statistics, June 1985.

Lost sales and lost revenues

Two firms provided lost sales allegations. * * * indicated that * * * it believed that it lost a sale of * * * pork butts to * * * by reason of Canadian pork imports. However, the purchaser could not be reached to confirm or deny this allegation.

* * * alleged that it lost sales of pork loins, butts, and spare ribs * * *. Specifically, * * * contends it lost sales of * * * pounds of pork spare ribs, which it valued at * * *; 1/ * * * pounds of special pork loins, which it valued at * * *; 2/ and * * * pounds of pork butts, which it valued at * * * 3/ by reason of lower-priced imports of Canadian pork. * * * claims that Canadian prices were, on average, 3 to 9 cents per pound lower than the prices * * * offered. When * * * was contacted in regard to the alleged lost sale, 4/ he reported that during the period * * * the price of Canadian pork loin closely approximated the U.S. price for the same quality item. * * * reported that the impact of the strong dollar made the cost of the Canadian pork loin significantly lower than that of the domestic product. Therefore, * * * bought the Canadian pork. However, once the Canadian price became less competitive with the U.S. price for pork loin, * * * returned to purchasing the U.S. product. * * * did confirm that * * * is now buying no significant quantities of the Canadian pork loin.

1/ Valued at prices per pound * * * for the various alleged lost sales.
2/ Ibid.
3/ Ibid.
4/ * * *.

APPENDIX A

NOTICE OF THE COMMISSION'S INSTITUTION OF A FINAL COUNTERVAILING DUTY INVESTIGATION

[Investigation No. 701-TA-224 (Final)]

Live Swine and Pork From Canada

AGENCY: United States International Trade Commission.

ACTION: Institution of a final countervailing duty investigation and scheduling of a hearing to be held in connection with the investigation.

SUMMARY: The Commission hereby gives notice of the institution of final countervailing duty investigation No. 701-TA-224 (Final) under section 705(b) of the Tariff Act of 1930 (19 U.S.C. 1671d(b)) to determine whether 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 Canada of live swine and of fresh, chilled or frozen meat (except meat offal) of swine, provided for in items 100.85 and 106.40, respectively, of the Tariff Schedules of the United States, which have been found by the Department of Commerce, in a preliminary determination, to be subsidized by the Government of Canada. Commerce will make its final subsidy determination in this investigation on or before June 10, 1985 and the Commission will make its final injury determination by July 31, 1985 (see sections 705(a) and 705(b) of the act (19 U.S.C. 1671d(a) and 1671d(b))).

For further information concerning the conduct of this investigation, hearing procedures, and rules of general application, consult the Commission's Rules of Practice and Procedure, Part 207, Subparts A and C (19 CFR Part 207), and Part 201, Subparts A through E (19 CFR Part 201, as amended by 49 FR 32569, August 15, 1984).

EFFECTIVE DATE: April 3, 1985.

FOR FURTHER INFORMATION CONTACT: Lawrence Rausch (202-523-0286), Office of Investigations, U.S. International Trade Commission, 701 E Street, NW., Washington, DC 20436.

SUPPLEMENTARY INFORMATION:

Background

This investigation is being instituted as a result of an affirmative preliminary determinatin by the Department of Commerce that certain benefits which constitute subsidies within the meaning of section 701 of the act (19 U.S.C. 1671) are being provided to manufacturers, producers, or exporters in Canada of live swine and fresh, chilled, and frozen pork. The investigation was requested in a petition filed on November 2, 1984 by the National Pork Producers Council, Des Moines, IA. In response to that petition the Commission conducted a preliminary countervailing duty investigation and, on the basis of information developed during the course of that investigation, determined that there was a reasonable indication that an industry in the United States was materially injured by reason of imports of the subject merchandise (49 FR 50315, December 19, 1984).

Participation in the Investigation

Persons wishing to participate in this investigation as parties must file an entry of appearance with the Secretary to the Commission, as provided in § 201.11 of the Commission's Rules of Practice and Procedure (19 CFR 201.11), not later than twenty-one (21) days after the publication of this notice in the Federal Register. Any entry of appearance filed after this date will be referred to the Chairwoman, who will determine whether to accept the late entry for good cause shown by the person desiring to file the entry.

Service list

Pursuant to § 201.11(d) of the Commission's rules (19 CFR 201.11(d)), the Secretary will prepare a service list containing the names and addresses of all persons, or their representatives, who are parties to this investigation upon the expiration of the period for filing entries of appearance. In accordance with § 201.16(c) of the rules (19 CFR 201.16(c), as amended by 49 FR 32569, August 15, 1984), each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by the service list), and a certificate of service must accompany the document. The Secretary will not accept a document for filing without a certificate of service.

Staff report

A public version of the prehearing staff report in this investigation will be placed in the public record on June 3, 1985, pursuant to § 207.21 of the Commission's rules (19 CFR 207.21).

Hearing

The Commission will hold a hearing in connection with this investigation beginning at 10:00 a.m. on June 25, 1985, at the U.S. International Trade Commission Building, 701 E Street NW., Washington, DC. Requests to appear at the hearing should be filed in writing with the Secretary to the Commission not later than the close of business (5:15 p.m.) on June 19, 1985. All persons desiring to appear at the hearing and make oral presentations should file prehearing briefs and attend a prehearing conference to be held at 9:30 a.m. on June 19, 1985 in room 117 of the U.S. International Trade Commission Building. The deadline for filing prehearing briefs is June 13, 1985.

Testimony at the public hearing is governed by § 207.23 of the Commission's rules (19 CFR 207.23). This rule requires that testimony be limited to a nonconfidential summary and analysis of material contained in prehearing briefs and to information not available at the time the prehearing brief was submitted. Any written materials submitted at the hearing must be filed in accordance with the procedures described below and any confidential materials must be submitted at least three (3) working days prior to the hearing (see § 201.6(b)(2) of the Commission's rules (19 CFR 201.6(b)(2), as amended by 49 FR 32569, Aug. 15, 1984)).

Written submissions

All legal arguments, economic analyses, and factual materials relevant to the public hearing should be included in prehearing briefs in accordance with § 207.22 of the Commission's rules (19 CFR 207.22). Postbearing briefs must conform with the provisions of § 207.24 (19 CFR 207.24)) and must be submitted not later than the close of business on June 28, 1985. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation on or before June 13, 1985.

A signed original and fourteen (14) copies of each submission must be filed with the Secretary to the Commission in accordance with § 201.8 of the Commission's rules (19 CFR 201.8, as amended 49 FR 32569, August 15, 1984). All written submissions except for

confidential business data will be available for public inspection during regular business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary to the Commission.

Any business information for which confidential treatment is desired must be submitted separately. The envelope and all pages of such submissions must be clearly labeled "Confidential Business Information." Confidential submissions and requests for confidential treatment must conform with the requirements of § 201.6 of the Commission's rules (19 CFR 201.6, as amended by 49 FR 32569, August 15, 1984).

Authority

This investigation is being conducted under authority of the Tariff Act of 1930, title VII. This notice is published pursuant to § 207.20 of the Commission's rules (19 CFR 207.20, as amended by 49 FR 32568, Aug. 15, 1984).

Issued: April 18, 1985.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 85-9969 Filed 4-23-85; 8:45 am]

BILLING CODE 7020-02-M

APPENDIX B

NOTICE OF THE DEPARTMENT OF COMMERCE'S FINAL SUBSIDY DETERMINATION

Notices

Federal Register
Vol. 50, No. 116
Monday, June 17, 1985

This section of the FEDERAL REGISTER contains documents other than rules or proposed rules that are applicable to the public. Notices of hearings and investigations, committee meetings, agency decisions and rulings, delegations of authority, filing of petitions and applications and agency statements of organization and functions are examples of documents appearing in this section.

DEPARTMENT OF COMMERCE

International Trade Administration

[C-122-404]

Final Affirmative Countervailing Duty Determination; Live Swine and Fresh, Chilled and Frozen Pork Products from Canada

AGENCY: Import Administration, International Trade Administration, Commerce.

ACTION: Notice.

SUMMARY: We determine that certain benefits which constitue subsidies within the meaning of the countervailing duty law are being provided to producers or exporters in Canada of live swine and fresh, chilled and frozen pork products. The net subsidy is Can$0.03272/lb. dressed-weight (Can$0.02602/lb. live-weight) and the bonding rate is Can$0.025523lb. dressed-weight (Can$0.04390/lb. live-weight). We have notified the United States International Trade Commission (ITC) of our determination. We are directing the U.S. Customs Service to continue to suspend liquidation of all entries of live swine and fresh, chilled and frozen pork products that are entered, or withdrawn from warehouse, for consumption, after April 3, 1985, and to require a cash deposit or bond on entries of these products.

EFFECTIVE DATE: June 17, 1985.

FOR FURTHER INFORMATION CONTACT: Gary Taverman or Mary Martin, Office of Investigations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue NW., Washington, D.C. 20230; telephone (202) 377-0161 (Taverman) or (202) 377-3464 (Martin).

SUPPLEMENTARY INFORMATION:

FINAL DETERMINATION

Based upon our investigation, we determine that certain benefits which constitute subsidies within the meaning of section 701 of the Tariff Act of 1930, as amended (the Act), are being provided to producers or exporters in Canada of live swine and fresh, chilled and frozen pork products. For purposes of this investigation, the following programs are found to confer subsidies:

Federal Program

- Hog Stabilization Payments Provided Under the Agricultural Stabilization Act

Joint Federal/Provincial Program

- Record of Performance Program

Provincial Programs

A. Stabilization Programs

- British Columbia Swine Producers' Farm Income Plan
- Manitoba Hog Income Stabilization Plan
- New Brunswick Hog Price Stabilization Program
- Newfoundland Hog Price Support Program
- Nova Scotia Pork Price Stabilization Program
- Prince Edward Island Price Stabilization Program
- Quebec Farm Income Stabilization Insurance Program
- Saskatchewan Hog Assured Returns Program

B. Other programs

- New Brunswick Swine Assistance Program
- New Brunswick Loan Guarantees and Grants under the Livestock Incentives Program
- New Brunswick Hog Marketing Program
- Nova Scotia Swine Herd Health Policy
- Nova Scotia Transportation Assistance Program
- Ontario Farm Tax Reduction Program
- Ontario (Northern) Livestock Programs
- Prince Edward Island Hog Marketing and Transportation Subsidies
- Prince Edward Island Interest Payments on Assembly Yard Loan
- Quebec Meat Sector Rationalization Program
- Quebec Special Credits for Hog Producers
- Saskatchewan Financial Assistance for Livestock and Irrigation

We determine the net subsidy to be Can$0.03272/lb. dressed-weight (Can$0.02602/lb. live-weight) and the bonding rate to be Can$0.05523/lb. dressed-weight (Can$0.4390/lb. live-weight).

Case History

On November 2, 1984, we received a petition from the National Pork Producers Council (NPPC) on behalf of the domestic pork producers, which include hog producers and packers of unprocessed pork products. Seven domestic pork packers are co-petitioners. In compliance with the filing requirements of § 355.26 of our regulations (19 CFR 355.26), the petition alleged that producers or exporters in Canada of live swine and fresh, chilled and frozen pork products directly or indirectly receive benefits which constitute subsidies within the meaning of section 701 of the Act, and that these imports materially injure or threaten material injury to a U.S. industry. We found that the petition contained sufficient grounds upon which to initiate a countervailing duty investigation, and on November 23, 1984, we initiated such an investigation (49 FR 47079). We stated that we expected to issue a preliminary determination by January 28, 1985. On January 4, 1985, we determined this investigation to be "extraordinarily complicated" as defined in section 703(c)(1)(B) of the Act. Therefore, we extended the period for making our preliminary determination by 65 days until April 1, 1985 (50 FR 1613).

Since Canada is a "country under the Agreement" within the meaning of section 701(b) of the Act, an injury determination is required for this investigation. Therefore, we notified the ITC of our initiation. On December 19, 1984, the ITC determined that there is a reasonable indication that these imports materially injure a U.S. industry (49 FR 50315).

We presented a questionnaire concerning the allegations to the government of Canada in Washington, D.C. on December 11, 1984. On January 29, 1985, we received a response to the questionnaire. We received

supplemental responses on February 19, 20, March 5, 11, and 14, 1985.

Subsequent to our initiation, we received timely requests for exclusion from several Canadian firms. Questionnaires were presented to these firms in order that the Department might determine the extent to which they may have benefitted from the alleged subsidy programs. Responses were received on February 25, 1985. We also received statements from the Canadian federal and provincial governments certifying that no benefits were provided to those Canadian firms requesting exclusion.

On the basis of information contained in these responses, we made a preliminary determination on March 26, 1985 (50 FR 13264). We verified the responses of the federal and provincial governments and the companies requesting exclusion in Ottawa and in the major cities of each province from April 1 to May 7, 1985.

At the request of both the petitioners and respondents, we held a hearing on May 9, 1985, to allow the parties an opportunity to address the issues arising in the investigation. Both petitioners and respondents filed briefs discussing these issues before and after the hearing.

Standing of Petitioner

The petition was filed by the National Pork Producers Council, an association of domestic hog growers, naming imports of live swine, and fresh, chilled and frozen pork products from Canada as the products to be investigated. Because the NPPC is an association of hog growers, respondents challenged its standing to file a petition against fresh, chilled and frozen pork products.

Seven pork packers, including one of the largest in the United States, are now co-petitioners. As producers of fresh, chilled and frozen pork prducts, they produce the product like the pork products under investigation and are therefore domestic interested parties qualified to be petitioners. They properly acquired co-petitioner status by filing pursuant to § 355.7(i) of the Commerce Regulations (19 CFR 355.7(i)). It is the Department's practice to presume industry support for a petition unless producers of a substantial proportion of the product under investigation come forward in opposition. In this case, packers expressed affirmative support for the petition.

Scope of the Investigation

The products covered by this investigation are live swine and fresh, chilled and frozen pork products, as currently provided for in items 100.8500, 106.4020, and 106.4040 of the *Tariff Schedules of the United States, Annotated (TSUSA)*.

Analysis of Programs

Throughout this notice, we refer to certain general principles applied to the facts of the current investigation. These principles are described in the "Subsidies Appendix" attached to the notice of "Cold-Rolled Carbon Steel Flat-Rolled Products from Argentina; Final Affirmative Countervailing Duty Determination and Countervailing Duty Order," which was published in the April 26, 1984, issue of the Federal Register (49 FR 18006).

There are approximately 36,000 producers and exporters in Canada of live swine and fresh, chilled and frozen pork products. For purposes of this final determination, the period for which we are measuring subsidization ("the review period") is fiscal year 1984—April 1, 1983, to March 31, 1984.

All values referred to are expressed in Canadian dollars.

Upstream Issue

Respondents argue that we must apply the upstream subsidies provision of the Trade and Tariff Act of 1984, section 613, to measure the amount of any benefit received by hog growers which is passed through to pork packers. They claim that section 613 governs the analysis of subsidies on input products, and argue that live swine are an input into the production of unprocessed pork meat. They note that live swine are sold by farmers to unrelated pork packers in arms-length transactions and claim that this supports their argument that live swine is an input into pork meat. Respondents conclude that if we do apply the upstream subsidy analysis, as they claim section 613 requires, we will find that no "competitive benefit" has been bestowed on the production of unprocessed pork.

We disagree with respondents that section 613 governs this case. Before we conduct an upstream subsidy investigation, we must have "reasonable cause to believe or suspect that an upstream subsidy, as defined in section 771(A)(a)(1), is being paid or bestowed." 19 U.S.C. 1671(g), as amended by section 613(b). Section 771A(a)(1) in part defines upstream subsidy as a subsidy paid or bestowed on an "input product" that accordingly bestows a competitive benefit on the product under investigation. As explained more fully below, we do not consider live swine to be an "input" into unprocessed pork. Without cause to believe or suspect that an upstream subsidy was being paid or bestowed with respect to unprocessed pork, we are not mandated by section 613 to conduct an upstream investigation and have not done so.

The Trade and Tariff Act of 1984, which amended the Tariff Act to provide for upstream subsidies, gives little guidance on the meaning of the term "input". The legislative history also does not provide decisive guidance. We believe there are two characteristics which evidence that live swine should not be considered an "input" into fresh, chilled and frozen pork products. These characteristics are level of value added and the role of the producer.

Empirically, one does not consider something as an "input" into something else when there is a low level of value added at a given stage of processing. Take, for example, steel pipe at the threading stage. No one would consider unthreaded pipe as an "input" into threaded pipe. Likewise, no one would consider unsifted iron ore as an "input" into sifted iron ore. This is true even though the products are at different stages of production, and the intervening process does change the form of the product in some way.

Operations such as threading or sifting do not add significantly to the value of the pipe or the iron ore. Thus, a low level of value added at a given level of processing is an indication that the prior stage product entering that level is not an input into the processed product.

The role of the processor at the stage in question is also significant. In each of the examples cited above, the latter processor was merely making the product ready for the next consumer. For example, unsifted iron ore is of little use to anyone but iron ore sifters.

The salient criterion is the degree to which the demand for the prior stage product is dependent on the demand for the latter stage product. For example, steelmakers' demand for sifted iron ore determines the iron ore sifter's demand for mined iron ore. However, it cannot be said that automakers' demand for steel determines the steelmakers' demand for iron. In the first example, the demand for the prior stage good is derived almost exclusively from the demand for the latter stage; in the second example it is not.

The fact that a sale, an arms-length transaction, occurs between these stages of processing does not mean that the prior stage product is an input. To see this, take the example of a trading house that purchases shirts from a clothing manufacturer. The trading house may perform some further processing in the form of packaging the shirts or putting them on hangers or sewing on labels before reselling them. It seems clear to us that although the

trading house may have purchased the shirts at arm's length, a subsidized, unpacked and unlabeled shirt becomes a subsidized packed and labeled shirt.

We have evaluated whether live swine are an input into fresh, chilled and frozen pork products in terms of the characteristics described above. In value-added terms, the packing stage consisting of immobilizing, stunning, dehairing, eviscerating, splitting, etc. does not contribute significantly to the value of the live swine. According to *Live Swine and Pork from Canada*, Inv. No. 701-TA-224 (Preliminary), USITC Pub. 1625 at 5 (December 1984), the value added at the packing stage is only 10 percent.

Moreover, the packers are merely making the swine ready for the next consumers, consumers of pork meat. The consumers are wholesale purchasers of pork meat for resale as pork, such as grocery chains, and further processors who produce bacon, hams, etc. The demand for the slaughtered and quartered swine is by far the predominant determinant of the demand for live swine.

Therefore, we conclude that live swine are not an input into fresh, chilled and frozen pork products.

In a case concerning an agricultural product such as this, it is particularly inappropriate to term the raw product an "input" into the next-stage or further processed product. In passing the Trade Agreements Act of 1979, Congress gave express recognition to the "special nature of agriculture," foreseeing that the analyses in antidumping and countervailing duty cases involving agricultural products would differ from analyses in cases pertaining to industrial products. *See* S. Rep. No. 249, 96th Cong., 1st Sess. 88, 91 (1979). As the ITC stated in *Lamb Meat from New Zealand*,

> Although it was discussed under the legislative history of section 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.

Inv. No. 701-TA-60 (Preliminary), 46 FR 53677, 56678 n. 18 (1981). The ITC, which has been called upon more often than we to deal with distinctions regarding agricultural products, has developed a two-part test for collapsing producers of a raw agricultural product and producers of a more processed product into a single industry. See, *e.g.*, *Frozen Concentrated Orange Juice*, Inv. No. 701-TA-184, USITC Pub. No. 1406 (July 1983); *Lamb Meat*, *supra*; *Sugar From the European Community*, Inv. No. 104-TAA-7 (May 1982); *Certain Red Raspberries from Canada*, Inv. No. 731-TA-135 (April 1984). First, the raw product can be sold in only one market: it enters "a single, continuous line of production resulting in one end product." *Frozen Concentrated Orange Juice*, at 19; *Lamb Meat* at 46 FR 56678. Second, the ITC looks for commonality of economic interest. *Id.* The Court of International Trade recently assented to the first prong of the ITC's test when it upheld the Commission's determination not to combine grape growers and wine producers in a single industry in *Certain Table Wines From France and Italy*, Inv. No. 701-TA-210 and 211 (Preliminary), USITC Pub. No. 1406 (July 1983). The court stated, "The logic of the legislative concern . . . extends only to agricultural products which are completely devoted to the production of the more advanced product under investigation." *American Grape Growers* v. *United States*, 19 Cust. Bull. 57, 58 (March 11, 1985). In each of the cases cited above, the court noted that "substantially *all* of the raw product was dedicated to the production of the product under investigation." *Id.* at 59 (emphasis in original).

Live swine and unprocessed pork are closely analogous to sheep and lamb meat or to sugar beet/sugar cane and refined sugar that were the subject of cases cited by the court, and to others, as well, such as fresh whole fish and filleted fish investigated in *Fish, Fresh, Chilled or Frozen, Whether or Not Whole, but Not Otherwise Prepared or Preserved, from Canada*, Inv. No. 701-TA-40, USITC Pub. No. 1066 (May 1980). The court did not address the second part of the ITC's test. Nor did the ITC in its preliminary determination in this investigation. It seems, however, that pork packers have expressed their commonality of economic interest with hog growers by joining in or supporting the petition. *See* the section of this notice "Standing", *supra*.

The primary, if not the sole, purpose of all segments of the industry in this case is to produce a single end product—pork meat. Substantially all of the raw agricultural product, live swine, is dedicated to the production of unprocessed pork. The fact that beyond this stage many separate processed products can be made, *e.g.*, canned ham and sausage, is irrelevant. The key is that there is a single, continuous line of production from live swine to unprocessed pork.

As the legislative history of the upstream subsidies provision indicates, Congress intended that section 613 generally codify our past practices. In reviewing our own practice, we find two instances where we have investigated subsidies which are bestowed on the production of a raw agricultural product which is then used to produce a next-stage product that was the subject of an investigation: *Lamb Meat from New Zealand: Preliminary Affirmative Countervailing Duty Determination*, 46 FR 58128 (1981), and *Certain Fish from Canada: Final Countervailing Duty Determination*, 43 FR 25996 (1978). In the *Lamb Meat* investigation, we preliminarily determined that subsidies bestowed on lamb provide an equal benefit to packed lamb meat, while in the *Fish* case we concluded that subsidies bestowed on whole fresh fish provide an equal benefit to filleted but not further processed fish. In both cases, we arrived at the net subsidy by totaling the benefits granted to the producer of the raw agricultural product (lamb and fish) and the producers of the next-stage product (lamb meat and filleted fish). Because Congress intended that section 613 codify our prior practices, we conclude that Congress did not intend that we alter our practices in situations similar to those arising in *Lamb Meat* and *Certain Fish*.

Given the congressional mandate to acknowledge the special nature of agriculture, our practice, the ITC's past practice, which is now sanctioned by the Court of International Trade, and the reasonableness of treating the raw and next-stage product together for purposes of subsidy analysis, we do not consider live swine to be an input into unprocessed pork.

Our conclusion that live swine is not an input into pork products is supported by one additional factor—absent such a finding, growers of live swine would be able to circumvent the imposition of countervailing duties. If we are to find that benefits to live swine do not benefit pork meat, and were to impose duties only on live swine, subsidized growers could avoid the imposition of duties on their product by selling through pork packers, who simply slaughter and trim the swine, and then export the product to the U.S. in the form of pork meat.

We recognize that, when we impose countervailing duties on a given product, exporters may be encouraged to shift exports from that product to some form of the same product at a prior or later stage of processing. However, in the case of an agricultural product such as pork, producers can shift very easily to the production of latter-stage products, by making only minor changes to that product. In this case, it is reasonable to assume that if countervailing duties were imposed only on live swine, exports to the U.S. would shift almost

instantaneously to fresh, chilled and frozen pork.

As noted *supra*, we do not consider one product to be an input into the next-stage product when the value added at that next stage is small. We believe that value added is also an accurate measurement of the relative ability to shift exports to the next stage of production, thereby circumventing the imposition of countervailing duties. In the examples of threaded pipe and iron ore cited above, where the primary product is distinguished from the next-stage product only by minor processing, it would be inappropriate to impose duties only upon the primary product. Producers would sell through next-stage processors, who would add little to the value of the product, but who would then be able to export to the U.S. without the liability of countervailing duties.

An analogous situation is our treatment of goods sold through a trading house. In the past, we have totaled the benefits received by the producers of the good and the benefits received by the trading house to determine the net subsidy for the good. We believe this to be an appropriate approach, since in its absence, producers who receive countervailable benefits would be able to circumvent easily the imposition of countervailing duties by selling through unsubsidized trading houses that obtain exclusions. One should not be able to circumvent an order in such a way.

For all of these reasons we determine that section 613 is not applicable to this case.

In light of this decision, the requests for exclusion by the packers of unprocessed pork will not be considered.

Based upon our analysis of the petition, the responses to our questionnaire, our verification, and comments filed by petitioners and respondents, we determine the following:

I. Programs Determined To Confer Subsidies

We determine that subsidies are provided to producers or exporters in Canada of live swine and fresh, chilled and frozen pork products under the following programs:

A. Federal Programs

1. Hog Stabilization Payments Provided Under the Agricultural Stabilization Act

The Agricultural Stabilization Act (ASA) of 1957–58 was enacted to provide for the stabilization of the prices of certain agricultural commodities. Three groups of commodities are explicitly provided for within the ASA (cattle, hogs and sheep; industrial milk and industrial cream; and corn, soybeans, oats and barley). Other natural or processed agricultural products, with certain exceptions, may be designated by the Governor in Council. Programs of the ASA are administered by the Agricultural Stabilization Board (the Board), whose members are appointed by the Governor in Council.

The Board has the duty to take such action in accordance with the ASA as is necessary to stabilize the prices of the covered agricultural commodities at their prescribed prices, and the power to "pay to producers of an agricultural commodity . . . the amount by which the prescribed price exceeds a price determined by the Board to be the average price by which the commodity is sold . . ." Chapter A–9, section 10(1)(b).

The mechanism by which the stabilization payment is determined is as follows: (1) A "base price," which is the average price of the commodity in representative markets for the 5-year period immediately preceding the year in review, is established; (2) a "prescribed price" is determined by taking a minimum of 90 percent of the base price and adjusting it by an index reflecting changes in production costs; and (3) an "average market return price" for the commodity for the year in review is established. The difference between the prescribed price and the average market return price is the amount of the gross stabilization payment.

In fiscal year 1984, because the average market price for hogs, Can$66.98/cwt., fell short of the prescribed price, Can$71.75 cwt., the federal government authorized a stabilization payment of Can$4.77/cwt. or Can$8.19/hog. This amount was reduced by approximately 20 percent to reflect the proportion of Canadian production which was exported in fiscal year 1984, resulting in a net payment of Can$6.54/hog. All producers who sold hogs of index 80 (a grading factor) or better for slaughter were eligible for benefits under this program provided they submitted an application with appropriate proof of sale and slaughter. For 1983–84, there was a participation ceiling of 12,000 hogs per producer.

To avoid double counting, the federal government deducted the amount of any provincial stabilization payment from the federal stabilization payment before it reimbursed each producer. If the provincial payment was greater than or equal to the federal payment, the federal government made no stabilization payment. If the federal government exceed the provincial payout, the federal government paid the producer the difference between the federal and provincial stabilization payments.

Respondents have claimed that ASA payments are part of a nationwide fabric of programs covering farm products and are not countervailable because they are provided to more than a specific enterprise or industry, or group of enterprises or industries. In support of their claim, they cite several previous Department rulings that the benefits provided to the agricultural sector are not limited in availability within the meaning of section 771(5)(B). *See Final Negative Countervailing Duty Determination: Fresh Cut Flowers from Mexico* (49 FR 15007) and *Final Negative Countervailing Duty Determination: Fresh Asparagus from Mexico* (48 FR 21618).

We disagree with respondents' claim. Based on the information received, we find that ASA payments are made only to selected agricultural producers and that the level of price stabilization payments varies, at the discretion of the Agricultural Stabilization Board, from commodity to commodity. As such, we cannot conclude that ASA payments are available to more than a specific enterprise or industry, or group of enterprises or industries, for the following reasons:

(a) The legislation establishing the ASA program specifically lists "named products" that are eligible for price support payments: Livestock (cattle, hogs and sheep), certain dairy products (industrial milk and industrial cream), and certain grains (corn, soy beans, oats and barley). The ASA further allows the Governor in Council to designate other agricultural products ("designated products") for coverage.

Thus, three types of products are singled out in the legislation. Each year, prescribed prices are automatically calculated for these named products, and if the prescribed price exceeds the average market price, payments can be authorized. Moreover, the ASA directs that for named products prescribed prices will be calculated as at least 90 percent of the base price (adjusted by a production cost index).

When we compare this treatment of named products to that of designated products, we find that designated products are only considered for ASA payments if the Governor in Council so directs. There is no automatic calculation of a prescribed price and no guaranteed potential for ASA payments, as is the case with named products. Also, there is no legally mandated

coefficient to be applied to the base price of designated products.

(b) A second aspect of the scheme which leads us to conclude that ASA payments benefit a specific enterprise or industry, or group of enterprises or industries, is the lack of neutrality in the formula for calculating the prescribed price. As noted above, there is not a prescribed coefficient for designated products, nor are there guidelines followed by the Board in making this determination. Even among the named products, there is discretion in setting the coefficient to be applied to the base price. Ninety percent only serves as a minimum.

(c) A third aspect of the scheme which leads us to our conclusion is the way in which the Canadian federal government appropriates funds for stabilization schemes covering named and designated commodities. Funding for named commodities is approved as a "statutory item" in the budget through existing legislation, *i.e.* the legal authority exists for the Board to support named commodities without the need for additional parliamentary approval. In contrast, funding for designated commodities is considered a "vote item" in the budget, and, as such must be approved by Parliament as a specific appropriation for a specific purpose.

(d) Other aspects of government discretion can be found within the specific stabilization schemes themselves. For example, to qualify for stabilization under the hog program, producers must sell hogs with a minimum grade factor of 80. Thus, all hogs are not eligible for stabilization payments, only those meeting the minimum grading threshold. In addition, the government will establish the maximum number of hogs for which payment can be made. In the 1979 and 1980 hog programs, the maximum was 5,000 per individual of 15,000 per enterprise; this was changed to a maximum of 12,000 per individual or enterprise.

The benefits provided under the ASA are analogous to those provided, and found to be countervailable, under programs such as the EC Common Agricultural Policy (CAP) program in *Tomato Products from the European Community* (44 FR 15825), and *Dextrines and Solubles from Corn Starch from the European Community* (45 FR 18414). Like the CAP, the ASA includes numerous programs available for many different agricultural products. Both programs provide payments in specific amounts to producers or processors of selected agricultural commodities in order to ensure that prices or returns are at certain pre-determined levels. Producers or processors of particular agricultural products are eligible to receive payments in amounts established yearly for each particular product found to warrant support.

The payments countervailed in the two cited EC cases and the benefits provided under the ASA are distinguishable from FIRA loans in *Flowers* and lower prices for water for irrigation in *Asparagus*. There were no specifically named products in the FIRA loan program or the irrigation program. Loans and water were provided to anyone engaged in agricultural production, regardless of product or level of production. Therefore, unlike the benefits discussed in *Flowers* and *Asparagus*, and like the benefits discussed in *Tomatoes* and *Dextrines*, we believe (1) that ASA payments are made to selected agricultural products in specific amounts, (2) that the specific rates of support provided depend upon the commodity in question, and (3) that there is governmental discretion in the administration of the various stabilization schemes. Hence, we find the payment provided under the ASA to be countervailable.

Calculation of Benefit

In deciding whether to allocate the benefit arising from stabilization payments to the year of receipt or over time, we have examined whether the program under which the payments are authorized is exceptional; *i.e.*, has the program been established for a period of years, or is it designed as a "one-time, shot-in-the-arm" subsidy program for the live swine industry? In the case of recurring programs, we would allocate the benefit to the year of receipt; in non-recurring programs, we would allocate the benefit over time.

The support for this approach derives from the legislative history surrounding the Trade Agreements Act of 1979, where both the House and Senate Reports singled out "non-recurring subsidy grants or loans" for special treatment:

> Reasonable methods of allocating the value of such subsidies over the production or exportation of the subsidies benefiting from the subsidy must be used.

S. Rep. No. 249, 96th Cong., 1st Sess. 85 (1979). *See also* H. Rep. No. 317, 96th Cong., 1st Sess. 75. In this case, we have determined that the Federal Hog Stabilization Program is long-standing. It was established in 1957 by the Agricultural Stabilization Act. Annual market prices and five-year prescribed prices have been calculated for almost 30 years; stabilization payments have been authorized for 3 of the last 5 years. In addition, we have no reason to believe that the program will not continue. For these reasons, we have determined that the benefits provided under this program are not exceptional and should, therefore, be allocated to the year of receipt.

To calculate the benefit, we divided the value of the stabilization payments made during fiscal year 1984 (the period for which we are measuring subsidization) by the dressed-weight equivalent of all hogs marketed in that year. This resulted in a subsidy rate of Can$0.000006/lb. dressed-weight (Can$0.000004/lb.

We have verified, and are now able to quantify, the value of the ASA payments that hog growers received on hogs marketed in fiscal year 1984. We are therefore adjusting those payments. We calculated the adjusted bonding rate by dividing the value of stabilization payments made in fiscal year 1985 ($56,354,583) on the hogs marketed during our period of investigation by the total dressed-weight equivalent of all hogs marketed in fiscal 1984. This calculation resulted in a bonding rate of Can$0.02251/lb. dressed-weight (Can$0.01789/lb. live-weight).

B. Joint Federal/Provincial Program; The Record of Performance Program

The Canadian Swine Record of Performance Program (ROP) is a joint federal and provincial herd testing system designed to assist swine producers in improving breeding stock and to encourage the production of uniform and high quality pork production at lower costs. Similar performance testing program exist for beef, dairy cattle, sheep, poultry and honey bees. (This is unlike the Hog Carcass Grading System, discussed in the 'Programs Found Not to Confer Subsidies' section of this notice, in which a far larger number of commodities were eligible for the service.)

Purebred swine are tested for backfat, growth rate and feed conversion, in accordance with guidelines formulated by the Canadian Swine Record of Performance Advisory Board and Agriculture Canada. Information from the testing program enables within-herd ranking and comparisons of animals for genetic merit. The Canadian federal and provincial governments bear most of the cost of this program. Provincial government publications indicate that these programs have contributed to increased profits for hog producers, as a result of the improved market index of hogs and a decrease in the average age at market.

Because this program is limited to a specific group of enterprises or industries, we determine it to be countervailable. To calculate the benefit, we divided the total value of the federal and provincial government contributions to the program during the period for which we are measuring subsidization by the dressed-weight equivalent of all hogs marketed in that year. This resulted in a subsidy rate of Can$0.00144/lb. dressed-weight (Can$0.00114/lb live-weight).

C. Provincial Stabilization Programs

1. British Columbia Swine Producers' Farm Income Plan (SPFIP)

Created in 1979 pursuant to British Columbia's Farm Income Insurance Act of 1973, the SPFIP assures hog producers in British Columbia a specified level of return over certain basic production costs. The program is administered by the provincial Ministry of Agriculture and Food, the British Columbia Federation of Agriculture and the British Columbia Pork Producers' Association. The program is funded by contributions, in roughly equal proportions, by the provincial government and participating hog producers.

Participation in the program is voluntary and is open to all producers who are members of the British Columbia Pork Producers' Association and who have an annual production capacity of 300 eligible market hogs. Certain participation ceilings restrict the number of hogs for which the program provides coverage. There are also payment ceilings, above which benefits are reduced.

Participating hog producers receive stabilization payments in calendar quarters during which certain costs of production exceed market returns. Costs of production and market returns are determined monthly by the administering authorities. Stabilization payments are made quarterly and are equal to the difference between costs of production and market return, multiplied by the number of eligible hogs sold, less a discount representing the producer's contribution. Producers make contributions to SPFIP in all quarters, regardless of whether costs of production exceed market returns.

Respondents have claimed that stabilization payments in British Columbia are not countervailable because they are provided to more than a specific enterprise or industry, or group of enterprises or industries, and because the stabilization schemes are operated according to objective economic criteria. We are not persuaded by respondents' argument. At verification we learned that, in addition to swine, nine other agricultural commodities currently have stabilization plans. However, neither the Farm Income Insurance Act nor its implementing regulation and guidelines establish procedures or criteria for when a commodity is to become subject to a stabilization plan. In practice, the British Columbia Federation of Agriculture takes the initiative to propose a stabilization plan to the province's Ministry of Agriculture and Food. The two entities consult together on such a proposal, but it is ultimately at the Ministry's discretion whether to implement a proposal.

There is also room for considerable variance in the treatment of those commodities for which stabilization plans are in place. For parity of benefits among the producers of different commodities to exist, it is essential that the cost of production elements in the stabilization formulae for the various commodities be comparable to one another. That is, the cost of production model used for the swine program should reflect the actual cost of production experience of swine producers to the same exent that the model for other commodities reflects the actual cost of production experience of producers of those commodities. Yet, both at the inception of a plan and whenever it is up-dated, the cost of production model for each commodity plan is also subject to consultation and negotiation between the Federation of Agriculture and the Ministry of Agriculture and Food. At verification, we learned that cost of production models are not necessarily an accurate reflection of cost of production experience of the relevant producer group. Thus, there exists the possibility that the incomes of producers of certain covered commodities are being stabilized to a significantly greater or lesser extent than those of others.

Even among swine producers, benefits are not available on equal terms, for it is only producers with an annual production capacity of at least 300 eligible market hogs who are eligible to participate.

For the foregoing reasons, we find that benefits provided under this program are limited to a specific group of enterprises or industries, and we determine this program to be countervailable. Dividing the provincial government's share of the fiscal year 1984 stabilization payments by the dressed-weight equivalent of all hogs marketed in that year, we calculated a subsidy rate of Can$0.00060/lb. dressed-weight (Can$0.00048/lb. live-weight).

2. Manitoba Hog Income Stabilization Plan (HISP)

Created in 1983 pursuant to the Farm Income Assurance Plans Act, the HISP provides income support payments to hog producers in Manitoba. The program is administered by the provincial Ministry of Agriculture and the Manitoba Hog Producers' Marketing Board. It is funded by premiums from participating producers and from the government of Manitoba. The government also makes loans to HISP, if needed, during periods when payouts are made to producers. Praticipation in the program is voluntary and is open to all producers registered with the Manitoba Hog Producer's Marketing Board. Coverage is limited to 1,250 hogs per calendar quarter, per producer, with special provision for higher ceilings for multiple family unit producers.

Participating producers receive payments at the end of each quarter in which the market price for hogs falls below an established support level. This price support level is 87 percent of a cost of production model, which is recalculated each quarter. Producer premiums, which currently are 5 percent of thoe settlement price, are deducted from the proceeds realized upon the sale of hogs. The provincial government's contributions are established at 2 percent of the settlement price. When combined producer premiums and government contributions are insufficient to finance stabilization payments, monies have been loaned from the provincial treasury to cover deficits.

The enabling legislation for this program, the Farm Income Assurance Plans Act, permits the Minister of Agriculture to establish income assurance plans for many natural products. However, in addition to swine, there is only one other commodity form which there is a stabilization scheme. Because stabilization benefits are limited to only these two products, we cannot find that stabilization payments in Manitoba are available to more than a specific group of enterprises or industries.

Dividing the provincial government's share of the fiscal year 1984 stabilization payments by the dressed-weight equivalent of all hogs marketed in that year, we calculated a subsidy rate of Con$0.00131/lb. dressed-weight (Can$0.00104/lb. live-weight).

3. New Brunswick Hog Price Stabilization Program

The New Brunswick Hog Price Stabilization Program, a joint program of

the New Brunswick Department of Agriculture and the Hog Marketing Board ("the Board"), was established in 1974. Its purpose is to assure hog producers greater income stability, to enable hog producers to remain in business during periods of low hog prices, and to provide a more uniform volume of pork production for the processing industry. In New Brunswick, all producers who market hogs through the Board are eligible to receive stabilization payments on 7,500 hogs per year. Hogs are the only agricultural commodity that receive stabilization payments in New Brunswick.

The Board establishes a stabilization price that is based on production costs. When the market price exceeds the stabilization price by $5.00, farmers pay into the stabilization fund. Ninety-five percent of this amount is considered to be the farmer's equity in the program. When the average weekly market price falls below the stabilization price, farmers receive payments to make up the difference between the two prices. Half this amount is paid by the government of New Brunswick as an outright grant to the farmer. The other half is drawn from the farmer's equity in the fund. When the farmer has exhausted his equity in the fund, the province assumes the producer's portion of the payment by providing an interest-free loan. This loan is only paid back when the market price exceeds the stabilization price. In fiscal year 1984, the stabilization price exceeded the market price throughout the year, and producers received both loan and grant payments from the program.

Because these grants and interest-free loans are limited to a specific enterprise or industry, or group of enterprises industries, we find them to be countervailable. To calculate the benefit resulting from the grant portion of the payment, we allocated the total grant amount received in fiscal year 1984 over the dressed-weight equivalent of all hogs marketed in fiscal year 1984. We treated the laon portion of the payment as one-year, interest-free loans, rolled over into subsequent years, until the loan amounts are repaid. To calculate the benefit from these loans, we took the difference between the zero interest rate charged on these loans and the national average short-term commercial rate for comparable agricultural loans, and multiplied this interest differential by the total amount of loans outstanding in fiscal year 1983. We allocated the resulting benefit over the dressed-weight equivalent of all hogs marketed in fiscal year 1984. The total benefit from the program, including the grant and loan portions of the payment is Can$0.00068/lb. dressed-weight (Can$0.00054/lb. live-weight).

4. Newfoundland Hog Price Support Program

In our preliminary determination, we referred to a program of low-interest loans to Newfoundland pork producers. We found at verification that this program, operating during fiscal year 1984, is a price stabilization program which provides pork producers interest-free loans from the provincial government equal to the difference between a stabilization price based on the cost of production and the market price for hogs.

However, that program was terminated and in April 1985 the provincial government set up a new price support program whereby hog producers receive 85¢ per pound on all market hogs regardless of the prevailing market price. Farmers receive this amount from the Newfoundland Farm Products Corporation, acting on behalf of the provincial government.

Because this program is limited to a specific enterprise or industry, or group of enterprises or industries, we find it to be countervailable. We determine that the benefit from this program is the difference between the 85¢ per pound that the producers actually received and the market price for hogs. However, since this program became effective only in April 1985, we do not have information on how much money will be spent on price support. As an estimate, we have used information from fiscal year 1984. We feel that the amount paid out in that year in loans under the price stabilization program is the best approximation of what will be paid out in the current fiscal year as grants under the price support program. Based on that information, we determine the benefit from this program to be Can$0.00017/lb. dressed-weight (Can$0.00013/lb. live-weight).

5. Nova Scotia Pork Price Stabilization Program (NSPPSP)

Pursuant to the Nova Scotia Natural Products Act, NSPPSP is administered under the Pork Producers Marketing Plan of August 9, 1983. The purpose of the program is to assure price stability with respect to the production of hogs by compensating farmers for fluctuations in the hog price cycles and by assuring that producers consistently recover direct operating costs. Participation is open to all hog producers who market hogs through the Nova Scotia Pork Price Stabilization Board (the Board). Maximum eligibility is established annual according to the producers' existing production facilities. Hogs are the only agricultural commodity that receive stabilization payments.

The NSPPSP is funded by producer contributions to the Pork Price Stabilization Fund. Each quarter, the Board sets and reviews the stabilization price to reflect current, direct, out-of-pocket operating costs. When the weekly market price exceeds the stabilization price by Can$3.00, the Board deducts the producer contributions from the sale price and deposits them in the Stabilization Fund. During periods of high prices, producers build equity in the fund with these payments. However, when the weekly market price falls below the stabilization price, the producers receive a deficiency payment which equals the difference between the two prices. Half of the payment is a grant to the producer from the province. The other half is drawn from the producer's equity in the fund. When the producer's equity is exhausted, the province assumes the producer's portion of the stabilization payment in the form of an interest-free loan, which is paid back only when the market price exceeds the contribution price. In fiscal year 1984, the stabilization fund was in a deficit position, and, accordingly, producers received both loans and grants from the province to cover their share of the payment.

Because these grants and interest-free loans are limited to a specific enterprise or industry, or group of enterprises of industries, we find them to be countervailable. To calculate the benefit resulting from the grant portion of the payment, we allocated the total grant amount received in fiscal year 1984 over the dressed-weight equivalent of all hogs marketed in fiscal year 1984. We treated the loan portion of the payment as one-year, interest-free loans, rolled over into subsequent years, until the loan amounts are repaid. To calculate the benefit from these loans, we took the difference between the zero interest rate charged on these loans, and the national average short-term commercial rate for comparable agricultural loans, and multiplied this interest differential by the total amount of loans outstanding in fiscal year 1983. We allocated the resulting benefit over the dressed-weight equivalent of all hogs marketed in fiscal year 1984. The total benefit from the program, including the grant and loan portions of the payment is Can$0.00086/lb. dressed-weight (Can$0.00068/lb. live-weight).

6. Prince Edward Island (PEI) Price Stabilization Program

In accordance with the PEI Natural Products Marketing Act, the PEI Hog Commodity Marketing Board established the PEI Price Stabilization Program in 1973. The purpose of the program is to provide income stability to hog producers by compensating them for fluctuations in prices caused by traditional hog-price cycles. The Stabilization Boad and provincial lending authorities meet quarterly to determine the level of support prices. If the weekly market price of hogs exceeds the support price by Can$3.00, producers contribute to the fund on a sliding scale indexed to the price of hogs. If the weekly market price of hogs falls below the contribution price, no contributions are made. If the weekly price of hogs falls below the stabilization price, the PEI Hog Commodity Marketing Board makes stabilization payments to cover the difference between the two prices. Half the payment is in the form of a grant from the province of PEI, the other half is drawn from the producer's equity in the fund. In the event that the producer's equity is exhausted, the province assumes the producer's portion of the payment by providing an interest-free loan which is then repaid from future producer contributions to the fund. Participation in the program is voluntary; there are no minimum production requirements. However, producers are only eligible to receive stabilization payments on the number of hogs equal to the average number of hogs marketed in the previous quarter, up to a ceiling of 3,400 hogs in four consecutive quarters. In 1984–85, the ceiling was raised to 4,300 hogs per year.

Because these grants and interest-free loans are limited to a specific enterprise or industry, or group or enterprises or industries, we find them to be countervailable. To calculate the benefit resulting from the grant portion of the payment, we allocated the total grant amount received in fiscal year 1984 over the dressed-weight equivalent of all hogs marketed in fiscal year 1984. We treated the loan portion of the payment as one-year, interest-free loans, rolled over into subsequent years, until the loan amounts are repaid. To calculate the benefit from these loans, we took the difference between the zero interest rate charged on these loans, and the national average short-term commercial rate for comparable agricultural loans, and multiplied this interest differential by the total amount of loans outstanding in fiscal year 1983. We allocated the resulting benefit over the dressed-weight equivalent of all hogs marketed in fiscal year 1984. The total benefit from the program, including the grant and loan portions of the payment is Can$0.00057/lb. dressed-weight (Can$0.00045/lb. live-weight).

7. Québec Farm Income Stabilization Insurance Program

In accordance with the "Loi sur l'assurance-stabilisation des revenue agricoles," the government of Québec has enacted regulations establishing stabilization schemes for producers of both feeder hogs and weaner pigs. These programs are administered by the Régie des Assurances Agricoles du Québec (the Régie), a crown corporation that states that it operates on an actuarially-sound basis.

Participation in a stabilization scheme is voluntary; however, once a producer enrolls in a program, the producer must make a 5-year commitment. The farmer must have a minimum production of 100 feeder hogs or own at least 15 sows during the first year of enrollment. The maximum number of feeder hogs on which stabilization payments will be made is 5,000; and for sows it is 400. Funding is provided jointly by producers and the provincial government in the ratio of 1 to 2.

Throughout the production year, the Régie will make cash advances against the year-end stabilization payment. The year-end payment is based on a comparison of average market price with a production model designed to cover fixed and variable costs and producers' remuneration.

Respondents have claimed that stabilization payments in Québec are not countervailable because they are provided to more than a specific enterprise or industry, or group of enterprises or industries. We disagree with respondents' claim. Based on the information received, we find that Québec's stabilization payments are made to selected agricultural producers and that the level of price stabilization and the terms of each scheme varies, at the discretion of the Régie, from commodity to commodity.

While the legislation establishing the Régie contains no limitations on products that might be covered by a scheme, we must look at the *de facto* application of the law. A product may covered by a scheme *only if a specific regulation with respect to that commodity is passed by the provincial government.* In fact, only 11 agricultural commodities are covered by stabilization schemes in Québec—lamb, sugar beets, beef, oats, wheat, barley, grain corn, potatoes, grain-fed veal, and feeder hogs and weaner pigs. Also, while respondents claim that the decision to stabilize particular commodities is based on objective economic criteria, we have not been furnished with any evidence to support this claim. The government of Québec has not provided any of its Department of Agriculture, Food and Fisheries' briefs describing the general economic situations of the products sectors concerned, its forecasts of the economic evaluation in those sectors, nor Treasury Board recommendations to the Cabinet. There do not appear to be any established procedures or criteria for when a commodity is to become subject to a stabilization scheme.

In addition to the lack of evidence to support the assertion that schemes are based on objective economic criteria, we find that there are limitations on participation within particular schemes. Stabilization payments are not available to all producers of a commodity covered by a scheme, but only those producing at the minimum threshold level. For example, a farmer who produces 99 feeder hogs would be ineligible to participate in the feeder hog scheme, but a farmer with a production of 100 could. Minimum and maximum levels of participation are established at the discretion of the Régie.

As such, we conclude that stabilization payments in Québec are not available to more than a specific enterprise or industry, or group of enterprises or industries, and are therefore countervailable. We calculated the benefit by dividing the government of Québec's portion of the payments made to feeder hog and weaner pig producers in fiscal 1984 by the dressed-weight equivalent of all hogs marketed in fiscal year 1984. This resulted in a subsidy rate of Can $0.02133/lb. dressed-weight (Can $0.01696/lb. live-weight).

8. Saskatchewan Hog Assured Returns Program (SHARP)

SHARP was established in 1976 pursuant to the Saskatchewan Agricultural Returns Stabilization Act and provides stabilization payments to hog producers in Saskatchewan at times when market prices fall below certain production costs. The program is administered by the Saskatchewan Pork Producers' Marketing Board on behalf of the provincial Department of Agriculture.

Participation in the program is voluntary and is open to all hog producers in the province. Coverage is limited to 1,500 hogs per producer each calendar quarter. During the period we investigated, nearly 75 percent of all

hogs marketed in Saskatchewan were covered by the program.

This program is funded by contributions from participating producers and by matching amounts from the provincial government. Producer contributions range from 1.5 to 4.5 percent of market returns on the sale of hogs which are covered by the program. Whenever the balance in the SHARP account is insufficient to make payments to participants, the provincial government loans the needed funds to the program.

The stabilization price under this program is the total of all cash production costs plus 75 percent of non-cash costs. This price is determined each calendar quarter. Stabilization payments are made at the end of each quarter to each participating producer whose average price for hogs marketed in that quarter is less than the stabilization price. However, in order to make a stabilization payment, the difference between average market price obtained and the stabilization price must be least Can$1.00. For fiscal year 1984, the provincial share of the support payment to hog producers averaged Can$8.09/hog.

Under the Saskatchewan Agricultural Returns Act, the provincial government may establish a stabilization plan for any agricultural commodity. However, in practice, only hogs and beef have such plans. Because stabilization benefits are limited to only these two products, we cannot find that stabilization payments in Saskatchewan are available to more than a specific group of enterprises or industries. By dividing the provincial government's share of the fiscal 1984 stabilization payments by the total dressed-weight equivalent of all hogs marketed in fiscal year 1984, we calculated a subsidy rate of Can$0.00153/lb. dressed-weight (Can$0.00122/lb. live-weight)

D. Other Provincial Programs

1. New Brunswick Swine Assistance Program

This program is administered by the Farm Adjustment Board under the Farm Adjustment Act. The program provides interest subsidies on medium-term loans to hog producers who are having problems with accumulated short-term liabilities or with start-up costs. These loans nominally are given to farmers at the provincial lending rate, but the Board pays an interest subsidy to the farmers equal to the average of the provincial lending rate and 7 percent. For example, a farmers taking out loans at 13 percent will pay an effective rate of 10 percent and the provincial government will make up the rest in the form of an interest subsidy. It is not clear whether a farmer actually pays the full rate for the loan and receives the interest subsidy as a rebate from the Board or that the farmer simply pays the reduced rate of interest.

Because these interest subsidies are limited to a specific enterprise or industry, or group of enterprises or industries, we find them to be countervailable. Since we do not know the amount of loans disbursed or the manner by which the interest subsidies were paid, we used as best information available the Farm Credit Board's figure for the amount of interest subsidy paid in fiscal year 1984 and treated this amount as a grant allocated fully in that year. Dividing that amount by the dressed-weight equivalent of all hogs marketed in fiscal year 1984, we calculated a subsidy of Can$0.000005/lb. dressed-weight (Can$0.000004/lb. live-weight).

2. New Brunswick Loan Guarantees and Grants Under the Livestock Incentives Program

This program assists livestock producers by providing free loan guarantees to farmers purchasing breeder and feeder animals. In addition, at the end of three years, farmers having loans for breeder animals are eligible for grants equal to 20 percent of the principal amount if, by that time, the farmer has successfully implemented a farm improvement plan submitted when the loan was received.

Because these loans and loan guarantees are limited to a specific enterprise or industry, or group of enterprises or industries, we find them to be countervailable. We calculated the benefit from the guarantees to be the difference between the cost of the government guarantees and what it would have cost hog producers to get commercial guarantees on their total outstanding loans. In addition, we treated the 20 percent refund paid to hog producers on breeder loans in fiscal year 1984 as grants allocated to the year of receipt. The benefit from this program, including both loan guarantees and the 20 percent refund on breeder loans, is Can$0.00004/lb. dressed-weight (Can$0.00003/lb. live-weight).

3. New Brunswick Hog Marketing Program

With the closure of slaughterhouses in northern New Brunswick, it became more expensive for farmers in that area to move their hogs to market. The New Brunswick Department of Agriculture established this program to assist in equalizing the cost of moving hogs to market across the Province. Funds are budgeted annually for the program based on the number of hogs marketed in previous years and on predicted expansion within the industry. Currently the provincial government pays $1.25 per hog marketed through the Hog Marketing Board for this program.

Because these grants are limited to a specific enterprise or industry, or group of enterprises or industries, and constitute a government assumption of producers' transportation costs, we find them to be countervailable. Treating the funds paid by the government for this program in fiscal year 1984 as a grant and allocating the amount paid to the year of receipt, we calculated a benefit of Can$0.00008/lb. dressed-weight (Can$0.00006/lb. live-weight).

4. Nova Scotia Swine Herd Health Policy

The Nova Scotia Department of Agriculture and Marketing operates a program whereby it reimburses veterinarians for house calls to enrolled producers. Any hog producer may enroll in the program and must agree to follow specified health practices and to pay the veterinarian a stipulated fee for his services. Because this program is limited to a specific enterprise or industry, or group of enterprises or industries, we find it to be countervailable. Dividing the amount of the government expenditure by the total dressed-weight equivalent of all hogs marketed in fiscal 1984, we calculated a benefit of Can$0.00001/lb. dressed-weight (Can$0.00001/lb. live-weight.)

5. Nova Scotia Transportation Assistance

The Nova Scotia Department of Agriculture and Marketing provides a grant to the Hog Marketing Board to defray the cost of transporting hogs to pork processing facilities. The hog marketing board distributes these funds to each producer based on the number of hogs marketed per year and the distance from the processing facility. Because this grant is limited to a specific enterprise or industry, or group of enterprises or industries, we find it to be countervailable. Dividing the amount of the grant by the total dressed-weight equivalent of all hogs marketed in fiscal 1984, we calculated a benefit of Can$0.00006/lb. dressed-weight (Can$0.00005/lb. live-weight).

6. Ontario Farm Tax Reduction Program

In accordance with Order-in-Council No. 2264/83, this program provides for the rebate of 60 percent of municipal property taxes on farmland to all

eligible farmers in Ontario. For a farm property to be eligible, annual municipal property taxes must be at least Can$20, and it must realize a gross annual production of Can$5,000 if located in eastern or northern Ontario, and Can$8,000 if located elsewhere in the province. In our preliminary determination, we stated that this program appeared to be countervailable as a regional subsidy within the Province, and that we would seek additional information on the benefits received by the producers of live swine and fresh, chilled and frozen pork products.

At verification, we were told that the lower production requirements were established for northern and eastern Ontario because weather conditions in those sections of the province are more severe than in the rest of Ontario, and that the Can$3,000 difference in the minimum production levels was intended to equalize eligibility for all Ontario farmers. Information was unavailable on specific benefits provided to individual commodity groups, or within specific regions of Ontario. Inasmuch as the eligibility criteria for this program vary depending on the region of Ontario where the farm is located, we determine this program to be a regional subsidy within the Province, and therefore countervailable. To calculate the benefit, we used as the best information available, that portion of the total payout under this program in fiscal 1984 that represents the proportion of swine production to total agricultural production in Ontario. By dividing that amount by the dressed-weight equivalent of all hogs marketed in fiscal year 1984, we calculated a subsidy rate of Can$0.00339/lb. dressed-weight (Can$0.00270/lb. live-weight).

7. Ontario (Northern) Livestock Programs

The Northern Ontario Livestock Improvement and Northern Ontario Livestock Transportation Assistance Programs were instituted pursuant to sections 5 and 6 of the Agriculture and Food Act. The improvement program reimburses farmers for 20 percent of the purchase costs of dairy cows, heifers, beef bulls, rams, ewes, and boars up to a maximum of Can$1,500 per applicant whose livestock meet certain performance standards. No more than Can$100 per animal may be paid on boars. The transportation program reimburses 50 percent of transportation costs when dairy animals, beef, sheep and swine meeting certain performance standards are purchased. The maximum amount any farmer may receive in a given year is Can$2,000.

Inasmuch as these programs are limited to livestock producers in Northern Ontario, we determine this program to be both a regional subsidy within the province, and limited to a specific enterprise or industry, or group of enterprises or industries, and therefore, countervailable. By dividing the total amount received by hog producers in fiscal 1984, by the total dressed-weight equivalent of all hogs marketed in fiscal year 1984, we calculated a subsidy rate of Can$0.000001/.lb. dressed-weight (Can$0.0000004/lb. live-weight).

8. Prince Edward Island Hog Marketing and Transportation Subsidies

The Prince Edward Island Department of Agriculture and Marketing provides a grant to the packer in Charlottetown to defray the cost of hog processing and transport. In addition, they provide a grant to producers in the western part of the province to equalize the opportunity cost of producing hogs in distant parts of the province.

Inasmuch as these benefits are both a regional subsidy within the province and limited to a specific enterprise or industry, or group of enterprises or industries, we find them to be countervailable. Dividing the amount of the grants by the total dressed-weight equivalent of all hogs marketed in fiscal 1984, we calculated a benefit of Can$0.00007/lb. dressed-weight (Can$0.00006/lb. live weight).

9. Prince Edward Island Swine Development Program

The Department of Agriculture and Marketing pays each farmer a specified amount of money for each boar or gilt that meets specific quality standards and is sold as breeding stock. Because this grant is limited to a specific enterprise or industry, or group of enterprises or industries, we find it to be countervailable. Dividing the amount of the grants by the total dressed-weight equivalent of all hogs marketed in fiscal 1984, we calculated a benefit of Can$0.00002/lb. dressed-weight (Can$0.00002/lb. live weight).

10. Prince Edward Island Interest Payments on Assembly Yard Loan

The provincial Department of Agriculture and Marketing assumed the interest on a loan to the pork producers, granted for the purpose of constructing a hog assembly yard. The interest payments assumed by the province need never be repaid by the producers. Because the grant was limited to a specific enterprise or industry, or group of enterprises or industries, we find it to be countervailable. We treated the net interest payment due in fiscal year 1984 as a grant and expensed it in the year of receipt. Dividing the amount of the grant by the total dressed-weight equivalent of all hogs marketed in fiscal 1984, we calculated a benefit of Can$0.0000004/lb. dressed-weight (Can$0.0000003/lb. live weight).

11. Québec Meat Sector Rationalization Program

Between 1975 and 1978, the Québec Ministry of Agriculture, Fisheries and Food instituted the Meat Sector Rationalization Program. The purposes of the program are: (1) To encourage the development of the Québec meat sector, (2) to ensure Québec producers with viable, sustained outlets for their production, (3) to provide the industry with a competitive advantage, and (4) to direct businesses to new markets.

Under this program the Québec Ministry of Agriculture, Fisheries and Food provides technical assistance and grants for the establishment, standardization, expansion, or modernization of slaughterhouses, processing plants, or plants preparing foods containing meat. All businesses operating or wishing to operate such a facility were qualified to participate in this program.

Because benefits under this program are limited to the meat sector, we determine that they are limited to a specific enterprise or industry, or group of enterprises of industries, and are therefore countervailable. The Government of Québec has reported that three packers currently in operation have received benefits under this program. Dividing the grants received during the period of investigation by the dressed-weight equivalent of all hogs marketed in fiscal year 1984, we calculated a subsidy rate of Can$0.00005/lb. dressed-weight (Can$0.00004/lb. live-weight).

12. Québec Special Credits for Hog Producers

Under the terms of the "Loi favorisant un crédit spécial pour les producteurs agricoles au cours de périodes critiques," agricultural producers in Québec may become eligible for low-interest loans, or interest subsidies, during "critical periods." Critical periods are defined as (1) natural disasters which create an emegency (*e.g.*, excessive rain, landslides), (2) an unexpected uncontrollable drop in prices, or (3) the disappearance of a designated level of production in a designated region for reasons beyond the control of producers. Pursuant to the law, two special regulations covering

hogs were implemented in June of 1980 and 1982 to cover shortfalls arising from the discrepancy between selling prices and costs of production.

Because these are special programs, enacted by regulation only when the government decides that a particular commodity group is in need of special assistance, we determine that these programs are limited to a specific enterprise or industry or group of enterprises or industries, and are countervailable. The government of Québec reported that it stopped giving interest subsidies to pork producers on March 1, 1983. However, delayed payments were made during fiscal years 1984 (ending March 31, 1984) and 1985 (ending March 31, 1985), and we do not know whether any other delayed payments will be made. In order to calculate the benefit, we are using, as best information available, the total interest subsidy paid in fiscal 1984 ($130,631) as representing the benefit to hog producers. Dividing this amount by the dressed-weight equivalent of all hogs marketed in fiscal year 1984, we calculated a subsidy rate of Can$0.00005/lb. dressed-weight (Can$0.00004/lb. live-weight).

13. Saskatchewan Financial Assistance for Livestock and Irrigation

Under this program, low-interest long-term loans, grants, and loan guarantees are made available to farmers for the acquisition and production of livestock, including swine, and to finance irrigation of farmland. Under the grant component of this program, borrowers were also given conditional grants of up to Can$6,000, with Can$500 of this amount being forgiven in each year in which the borrower remains in production. A borrower who ceases production before the full amount is forgiven must repay the outstanding balance. Most of these loans, grants, and guarantees are made for purposes related to the acquisition and production of livestock. Consequently, we determine that benefits under these programs are limited to a specific enterprise or industry, or group of enterprises or industries, and are countervailable.

The long-term loans are made at interest rates which are preferential. We calculated the benefit conferred by these loans in accordance with our long-term loan methodology. For the benchmark interest rates, we used a weighted average of the interest rates for long-term loans given by commercial banks and the Farm Credit Corporation, the major lenders to agriculture in Canada.

In calculating the benefit for the grant portion of this program, we treated the total amount of the conditional grants not yet forgiven as one-year, interest-free loans, using our short-term loan methodology. We treated the amounts which were forgiven during fiscal year 1984 as grants expensed in the year of receipt.

We calculated the benefit from loan guarantees by assuming, as best information available, that hog producers received the same proportion of all guarantees extended as they did of loans. Because these guarantees are made free of charge, the benefit is equal to what comparable commercial guarantees would have cost.

Dividing the benefits from the loans, grants, and guarantees by the dressed-weight equivalent of all hogs marketed in fiscal 1984, we calculated a subsidy rate of Can$0.00045/lb. dressed-weight (Can$0.00036/lb. live-weight).

II. Programs Determined Not To Confer Subsidies

We determine that subsidies are not being provided to producers or exporters in Canada of live swine and fresh, chilled and frozen pork products under the following programs:

A. Federal Programs

1. Financing Programs

(a) *Farm Credit Act.*—Canada's Farm Credit Act of 1959 provides long-term loans to individual farmers, farming corporations, and cooperative farm associations for the acquisition of farm land and for a broad array of agricultural operations. The program is administered by the Farm Credit Corporation.

Loans are for a maximum term of thirty years and must be secured. With two exceptions, these loans are made at a fixed annual rate of interest which is 1 percent above base rate. This base rate is the same as the yield on government of Canada bonds with maturities of five to ten years. The exceptions to the above are (1) loans which were approved between October 18, 1979, and March 31, 1980, at a fixed rate of 12 percent per annum, and (2) a special provision for interest rates on loans approved on or after November 15, 1968, part of the proceeds of which are used to repay prior loans under this program.

(b) *Farm Syndicates Credit Act.*—The Farm Syndicates Credit Act provides long-term loans to farming corporations, cooperative farm associations and other farm associations for the purchase or improvement of farm buildings and land, and for the acquisition of farm machinery. The program is administered by the Farm Credit Corporation.

Loans are made for up to Can$100,000, on terms which vary according to the use of the proceeds. Interest rates are prescribed by the Farm Credit Corporation and are set at levels which cover the Corporation's cost of money and its administrative expenses.

(c) *Special Farm Assistance Programs.*—Under this program, long-term loans were available to distressed farming enterprises.

The program ended on June 28, 1984.

Summary of Federal Financing Programs

The enabling federal legislation indicates, and we have verified, that financing under these Federal plans is available without restriction to the producers of any agricultural product in Canada. Because the programs do not designate specific products for receipt of financing or establish differing terms for specified products, we determine that the Federal financing programs for agriculture are available to more than a specific enterprise or industry, or group of enterprises or industries, and hence are not countervailable. *See the Final Negative Countervailing Duty Determination: Fresh Cut Flowers from Mexico* (49 FR 15007).

2. Federal Hog Carcass Grading System

Hog carcasses in Canada are graded under the Hog Carcass Grading Regulations, pursuant to the federal Livestock Grading Program and the Canada Agricultural Products Standards Act. Hog carcasses receive an index number, based on their backfat in relation to weight. This grading system provides nationally uniform standards for trade in live swine. The cost of the hog market grading program is borne by the federal government.

Provision by the government of this type of service is as beneficial to consumers as to producers; *i.e.*, consumers get a better quality product, and producers receive higher returns for their commodities. At least where, as here, numerous agricultural products are similarly graded and for all such products the government bears the full cost, we cannot say that the practice is one which is countervailable, because the program is available to more than a specific enterprise or industry, or group of enterprises or industries.

Provincial Programs

1. Grant Programs in Québec

(a) *Grants under the Act to Promote the Development of Agricultural Operations.*—Under the Act to Promote the Development of Agricultural

Operations, grants are provided to assist farmers in carrying out improvements on their farms.

(b) *Grants to Provincial Pork Packers under the Québec Industrial Assistance Act (IAA).*—Pursuant to the IAA, the Société de développement industriel du Québec (SDI) was established in 1971 to promote economic development in Québec by providing financial incentives. Through it, the government of Québec may make low-interest loans, grants, loan guarantees, and may purchase shares in manufacturing and commercial operations. Two pork packers received grants from SDI.

The Québec grant programs do not designate specific products for receipt of funding nor establish differing terms for specified products. We have verified that producers in a wide range of industries in all regions in Québec have participated in these programs. Therefore, we determine that these Québec grant programs are available to more than a specific enterprise or industry, or group of enterprises or industries, and are not countervailable.

2. Financing Programs in Québec

(a) *Low-Interest Financing under an Act to Promote Long-Term Farm Credit by Private Institutions*—The Office de crédit agricole du Québec (the Office) offers low-cost financing to agricultural producers who maintain profitable farms as their primary occupation and who demonstrate a need for such financing. The Act permits lenders to make variable-interest, low-cost long-term loans to borrowers so that the interest charged does not exceed the prime rate plus ½ percent.

In addition, twice a year the Office reimburses a part of the interest, equal to half the difference between 4 percent and the interest charged, to the borrower. On loans granted before November 23, 1983, the Office returns to the producer the portion of the interest exceeding 2½ percent on the first Can$15,000 and the portion exceeding 8 percent on the next Can$135,000 (Can$185,000 for group operations).

(b) *Low-Interest Financing under the Farm Credit Act*—Under the Farm Credit Act, the Office can make long-term loans on terms similar to those in the Act to Promote Long-Term Farm Credit by Private Institutions. The interest charged is 2.5 percent on the first Can$15,000 and 8 percent on the remaining amount up to Can$150,000 (or Can$200,000 for group operations). Since August 1, 1978, the Office has ceased making loans although it may, under exceptional circumstances, make loans when private lenders are unable to do so. In addition, the Fonds d'assurances-prêts agricoles et forestiers gurarantees loans and lines of credit extended to farmers by private constitutions under the Farm Credit Act even though these loans carry no interest subsidy.

(c) *Low-Interest Guaranteed Loans under An Act to Promote Farm Improvement*—The Office guarantees medium-term loans of up to Can$200,000, at a variable interest-rate that may not exceed the prime rate plus ½ percent. Twice a year the Office reimburses borrowers a portion of the interest equal to 3 percent of loans on the first Can$15,000. All farmers qualify who maintain profitable farms as their primary occupation, and who demonstrate a need for such financing.

(d) *Interest-Free Loans under the Act to Promote the Establishment of Young Farmers*—The Act to Promote the Establishment of Young Farmers was promulgated on September 1 1982. It permits newly established farmers between the ages of 18 and 49 to receive interest subsidies equal to the net interest payable for five years on the first Can$50,000 of a loan.

(e) *Low-Interest Mortgages under the Farm Loan Act*—The Farm Act permits the Office to reimburse a portion of the interest on the first Can$15,000 of a mortgage granted by the Farm Credit Corporation of Canada. The Office will reimburse one half of the difference between 4 percent and the rate charged by the Office. On loans granted by the Farm Credit Corporation of Canada (FCC) before November 21, 1981, the Office reimburses the difference between 2½ percent and the rate charged by the FCC on these loans.

(f) *Short-term Loans*—The Office, in accordance with the "Loi favorisant le crédit à la production agricole," offers short-term loans to producers of agricultural products.

The Québec financing programs do not designate specific products for receipt of funding, nor establish differing terms for specified products. We have verified that producers of a wide range of commodities in all regions in Québec have received benefits from these programs. Therefore, we determine that the Québec financing programs for agriculture are available to more than a specific enterprise or industry, or group of enterprises or industries, and hence are not countervailable.

3. Financing Programs in Ontario

(a) *Ontario Farm Adjustment Assistance Program (OFAAP)*—This program, along with its companion OLAP (Operating Loan Assistance Program) was instituted in 1982 pursuant to section 5 and 6 of the Ontario Agriculture and Food Act. Under OFAAP, the following benefits are provided to Ontario farmers—deferral of interest for 6 months; interest reduction grants of up to 5 percentage points reducing interest to not less than 12 percent; and guaranteed new lines of operating credit. Under OLAP, production and financial management counseling, as well as financial assistance, are provided to Ontario farmers. Where insufficient security exists to obtain the necessary amount of operating loan, the government will complement existing security with a guarantee to the lending bank; the bank will extend the funds at no more than the prime rate plus 1 percent, and the guarantee may last up to 12 months.

(b) *Ontario Beginning Farmer Assistance Program*—This program was instituted on January 1, 1983, pursuant to section 5 of the Agriculture and Food Act. This program provides a rebate of interest charges on loans (up to Can $350,000) from approved lenders to a maximum rebate of 5 percent points, based on the difference between the Farm Credit Corporation rate at the time of entry and 8 percent. Assistance is available to all beginning farmers in Ontario, defined as those who have never owned a viable farm or have never spent a majority of their time or earned a majority of their income from farming assets over which they have had control.

(c) *Ontario Young-Farmer Credit Program*—This program was instituted in 1975 pursuant to section 5(a) of the Agriculture and Food Act. All young farmers in Ontario who can demonstrate, through a production plan, that they have sufficient experience and ability to conduct a farming operation are eligible for this program. The borrower must be unable to obtain credit through usual lending sources. Assistance comes in the form of lender-guaranteed loans for terms up to 10 years from chartered banks and designated credit agencies at an interest rate not exceeding prime plus 1 percent. These loans are guaranteed by the Ontario Treasury.

These Ontario financing programs do not designate specific products for receipt of funding nor establish differing terms for specified products, or for products grown in specified regions of Ontario. We have verified that producers of a wide range of commodities in all regions in Ontario have received benefits from these programs. Therefore, we determine that these financing programs for agriculture are available to more than a specific industry or enterprises, or group of

industries or enterprises, and hence are not countervailable.

4. New Brunswick Financing Provided Under the Farm Adjustment Act of 1980

In our preliminary notice, we described programs under the Farm Adjustment Acts of 1980 and 1984. During verification we learned that there is actually only one Farm Adjustment Act; the program described as the Farm Adjustment Act of 1984 is simply the most recent regulations under the Act.

The Farm Adjustment Board, created by the Farm Adjustment Act, was established primarily to make loans and loan guarantees for farming operations. The Board also operates a land lease-purchase program. These financing programs are available to and are received by all sectors of agriculture in New Brunswick. Because the programs do not designate specific products for receipt of funding or establish differing terms for specified products, we determine that the New Brunswick financing programs for agriculture are available to more than a specific enterprise or industry, or group of enterprises or industries, and hence are not countervailable.

5. Newfoundland Loans Provided Under the Farm Development Loan Act

During our verification, we found that farmers are eligible for loans at preferential interest rates from the Farm Development Loan Board. This board was established under the Farm Development Loan Act of 1953 to help new farmers establish productive farms, to assist established farmers in expanding or modernizing their farms, and to help those involved in part-time farming operations. The interest rate on Farm Development loans is set at three percent below the prime rate. These loans were available to and were received by all sectors of agriculture in Newfoundland.

Because loans provided under the Farm Development Loan Act are not limited to specific products and there are not differing terms for specific products, we determine that these loans are not limited to a specific enterprise or industry, or group of enterprises or industries, and hence are not countervailable.

6. Nova Scotia Farm Loan Board Programs

The Nova Scotia Farm Loan Board administers a variety of programs to assist entry into agriculture and to help farmers acquire and develop farms. They are: Low-interest loans, interest subsidies, interest forgiveness, and subsidized land leasing and purchase agreements. These programs do not designate specific products for receipt of funding or establish differing terms for specified products. We have verified that producers of a wide range of commodities in all regions in Nova Scotia have received benefits from these programs. Therefore, we determine that the Nova Scotia financing programs for agriculture are available to more than a specific enterprise or industry, or group of enterprises or industries and hence are not countervailable.

7. Prince Edward Island Lending Authority Long- and Short-term Loans

The Prince Edward Island Lending Authority provides long- and short-term agricultural loans for operating credit, livestock, captial equipment and farmland purchases, recapitalization of debt, and land improvement. In addition, the lending authority provides loans to fisheries, tourism and small businesses. The programs do not designate specific recipients of funding or establish differing terms for specified products. We have verified that producers in a wide range of industries in all regions in Prince Edward Island have received benefits from these programs. Therefore, we determine that these programs are available to more than a specific enterprise or industry, or group of enterprises or industries and hence are not countervailable.

8. Alberta Agricultural Development Corporation Low-Interest Loans and Loan Guarantees

The Agricultural Development Corporation provides low-interest loans and loan guarantees to farming operations, including hog producers. The programs do not designate the producers of specific products for receipt of funding or establish differing terms for specified products. We have verified that producers of a wide range of commodities in all regions in Alberta have received benefits from these programs. We determine that the Alberta financing programs for agriculture are available to more than a specific enterprise or industry, or group of enterprises or industries and hence are not countervailable.

9. Financing Programs in British Columbia

(a) *Low-Interest Loans and Loan Guarantees by the British Columbia Ministry of Agriculture and Food*— Under British Columbia's Agricultural Credit Act, low-interest loans and loan guarantees are provided to eligible farmers. The program does not designate the producers of specific products for receipt of funding or establish differing terms for specified products.

(b) *Partial Interest Reimbursement*— This program operates to reimburse farmers in British Columbia for part of the interest on loans. It does not designate the producers of specific products for the receipt of interest reimbursements or establish differing terms for specified products.

These British Columbia financing programs do not designate specific products for receipt of funding nor establish differing terms for specified products. We have verified that producers of a wide range of commodities in all regions in British Columbia have received benefits from these programs. Therefore, we determine that these programs are available to more than a specific industry or enterprises, or group of industries or enterprises, and hence are not countervailable.

10. Manitoba Agricultural Credit Corporation Loans and Loan Guarantees

The government of Manitoba, through the Manitoba Agricultural Credit Corporation, provides loans and loan guarantees to farmers. These forms of financial assistance are available to all agricultural producers, and the terms do not vary according to the commodity produced. We have verified that producers of a wide range of commodities in all regions in Manitoba have received benefits from these programs. Therefore, we find that this program is available to more than a specific enterprise or industry, or group of enterprises or industries and is not countervailable.

11. Saskatchewan Economic Development Corporation (SEDCO) Financial Assistance

SEDCO provides various types of financial assistance to further the development in Saskatchewan of industry in general, and of specialized agricultural, horticultural, and livestock operations. At verification, we learned that a pork packer in Saskatchewan had received a long-term loan from SEDCO, for which principal is still outstanding. Because this loan was made on terms that were not inconsistent with commercial considerations, we determine that no countervailable benefits has been bestowed by this program.

III. Programs Determined Not To Be Used

We determine that producers or exporters in Canada of live swine and

fresh, chilled and frozen pork products did not use the following programs:

A. Ontario Red Meat Plan

Under this program, various grants and services are provided by Ontario's Ministry of Agriculture and Food to producers of beef and sheep. Benefits are not available to producers or exporters of live swine and fresh, chilled and frozen pork products.

B. Ontario Swine Sales Assistance Policy

This program is designed to promote the distribution within Ontario of pure-bred animals of superior quality. Grants of Can$2.50 per animal, to a maximum of Can$100 per sale are made to Breeders' Clubs. These grants are to assist in defraying the costs of conducting consignment sales. No payments were made under this program since 1982.

C. New Brunswick Swine Industry Restructuring Program

This program was created under the Swine Industry Restructuring Regulation, a regulation pursuant to the Farm Adjustment Act. The program was established to help hog producers with large debt loads to restructure that debt load so that the debt could be repaid and the farmer could remain in business. Hog farmers are allowed to set aside all debt from provincial and federal farm loans that exceed a standard debt load of Can$18.50 per hog. The amount set aside does not have to be repaid until the standard debt load is repaid and does not accrue interest until that time. Because the government established this program in April 1985, we are unable to measure the potential benefit from the program. We will analyze any potential benefits resulting from this program during an administrative review under section 751 of the Act, if one is requested.

D. Saskatchewan Livestock Investment Tax Credit

Saskatchewan's 1984 Livestock Tax Credit Act provides a tax credit of Can$3.00 per hog for hogs slaughtered between March 22, 1984, and December 31, 1986. Producers and other eligible claimants must own the hogs for a minimum feeding period of 80 days and either slaughter them themselves or market them for immediate slaughter. There is a Can$100 deduction from the credit in each year in which this tax credit is claimed. Any unused portion of the tax credit may be carried forward by the claimant for up to seven years after the year in which not used. These tax credits were not available until the 1984 tax year, and returns will be filed no earlier than 1985. Following our practice of attributing benefits provided under tax programs to the year in which the tax returns are filed, we determine that benefits under this program were not received during the period for which we have measured subsidization.

IV. Programs To Be Terminated

A. Alberta Pork Producers' Market Insurance Program (PPMIP)

Under the authority of the Department of Agriculture Act, this stabilization program was in place from July 1, 1981 through September 30, 1984. Hog producers in Alberta were assured a specified level of return over certain production costs. Support levels were adjusted quarterly to reflect fluctuations in the cost components of hog production. Support payments were calculated weekly, and paid monthly based on the difference between the support level and weekly average market price. The program was funded by grants from the Government of Alberta, by loans secured by the provincial government and by producer premiums.

In our preliminary determination, we recognized that stabilization plans similar to this one may have also been available with respect to other commodities in Alberta. However, because information was not provided on (1) the other commodities receiving stabilization payments, (2) the value of these payments, or (3) the mechanism by which those payments were determined, we found that benefits under this stabilization program were limited to a specific industry, and were countervailable. We based the subsidy rate for this program on the Government of Alberta's share of the payments made to producers during fiscal year 1984.

This program was to have ended on March 31, 1985. However, subsequent to our preliminary determination, we verified that this program had been terminated on September 30, 1984, and that no payments under this program had been made since the end of 1984. Entries into the United States made after our original suspension of liquidation will not receive beenfits under this program.

B. Ontario Weaner Pig Stabilization Plan

Pursuant to the Farm Income Stabilization Act (FISA), the Government of Ontario operated a weaner pig stabilization program from April 1, 1980, through March 31, 1985. The intent of the program was to provide producers of weaner pigs with support payments in any production period in which the average market price for that period fell below a certain support price. The market and support prices were based on data used by the Federal government for its ASA slaughter hog program. Participation in the Ontario program was voluntary and funding for the program was provided by the provincial government and the participating producers in the ratio of 2 to 1.

In our preliminary determination, we recognized the fact that stabilization plans similar to this one may have also been available with respect to other commodities in Ontario. However, because information was not provided on (1) the other commodities receiving stabilization payments, (2) the value of these payments, or (3) the mechanism by which those payments were determined, we found that benefits under the weaner pig stabilization program were limited to a specific industry, and were countervailable. We based the subsidy rate for this program on the Government of Ontario's share of the payments made to producers during fiscal year 1984.

We verified that this program had been statutorily terminated on March 31, 1985, and that no payments under this program have been made since mid-1984. Entries into the United States made after our original suspension of liquidation will not receive beenfits under this program.

V. Program Determined Not To Exist

A. Proposed Tripartite Red Meat Stabilization Program

A proposal exists for the introduction of stabilization programs for five sectors of red meat production in Canada, including one for hog producers. These would provide national uniformity in support levels within each sector and would replace the existing federal and provincial programs. Legislation on this matter is pending, and thus the program has yet to be implemented. Accordingly, we determine that this program does not yet exist, but we will re-examine its status in a 751 administrative review, if one is requested.

Respondents' Comments

1. The Canadian Meat Council argues that section 613 of the Trade and Tariff Act of 1984, the upstream subsidies provision, governs the analysis of subsidies on all input products. The Meat Council maintains that the Department erred when it concluded in its preliminary determination that live swine are not an input product into pork products, and that if section 613 had been applied, we would find that no

competitive benefit is bestowed on pork products as a result of benefits provided to producers of live swine. It contends that the factors cited by the Department in support of its preliminary finding—an absence of substantial transformation, the continuous line of production, the single end product, and the definition of industry by the ITC, appear nowhere in section 613 or its legislative history. The Meat Council further contends that, while the competitive benefit test of section 613 is conclusive, economic analysis will also demonstrate that payments to Canadian swine growers confer no benefit on pork packers.

DOC Position

We disagree. *See* the section of this notice entitled "Upstream Issue".

2. The Canadian Pork Council contends that federal and provincial stabilization payments are part of a nationwide fabric of programs covering farm products and are not countervailable because they are not limited to a specific enterprise or industry, or group of enterprises or industries. Following the same reasoning, they also argue that benefits provided under the Swine Record of Performance Program and the Hog Carcass Grading System are not countervailable.

DOC Position

We have determined that the Hog Carcass Grading System is not, and the federal and provincial stabilization programs and the Swine Record of performance Program are, countervailable. *See* the discussion for each program, and particularly that for the federal stabilization program, in the "Programs Determined to Confer Subsidies" section of this notice.

3. The Canadian Pork Council, citing the *Final Affirmative Countervailing Duty Detrermination: Certain Textile Mill Products and Apparel from Peru* (50 F.R. 9871), maintains that the Department's final determination should be based on the most recent verified information, and accordingly should take into account the terminations of the Alberta and Ontario hog stabilization programs, and the announcement by the federal government that there will be no ASA payments made on hogs marketed in fiscal year 1985.

DOC Position

We recognize the termination of the Ontario and Alberta stabilization programs, and have adjusted the bonding rate accordingly. With regard to the federal stabilization program, the announcement that hogs marketed in fiscal year 1985 will not be eligible for payments was made on May 2, 1985, well after the Department's preliminary determination and after the verification of the federal programs was completed. It has long been the Department's policy not to account for program changes after a preliminary determination. Also, the suspension of payments has not been verified. This treatment is consistent with our final determination in *Certain Textile Mill Products and Apparel from Peru.*

There are two other factors weiging in our decision not to reduce the bonding rate attributable to this program. Due to the open-ended time frame for receiving applications, we cannot be sure that the agricultural Stabilization Board will not still be making payments this year on 1984 hog marketings. Furthermore, it is unclear what effect a proposed amendment to the Agricultural Stabilization Act will have on the time periods for which stabilization determinations are made.

4. The Canadian Pork Council suggests that the Department treat government contributions to the various provincial stabilization funds as the measure of any subsidy, and not the governments' shares of any stabilization payments paid to the producers of live swine. The Pork Council also contends that the stabilization funds are actually insurance funds operating on an actuarially sound basis.

DOC Position

We disagree. We measure the value of a subsidy using the "cash flow" approach; *i.e.*, we find that a benefit is bestowed when the producer or enterprise acutally receives a government payment. If we were to follow respondent's approach, the situation might arise where we would countervail government contributions into a stabilization fund even during periods when no payments were made to the producers of live swine. Regarding its contention that stabilization funds are really insurance funds operating on actuarially sound bases, we have seen no evidence of that.

5. The Canadian Meat Council contends that the National Pork Producers Council lacks standing to petition with respect to fresh, chilled and frozen pork products. The request of Wilson Foods to join as co-petitioner should be denied, and the Department should recognize that the expression of support for the petition by other packers is insufficient to establish standing.

DOC Position

We disagree. *See* the discussion under the section of this notice entitled "Standing of Petitioners".

6. Both the Canadian Pork Council and the Canadian Meat Council argue that the Department relied upon an incorrect dressed weight factor when converting the total number of hogs marketed to a dressed weight equivalent. They claim that the correct dressed weight factor is 0.79–0.80, rather than the 0.71 factor used for the preliminary determination. The Canadian Meat Council further argues that approximately 95 percent of the total weight of live hog is used for some commercial purpose and, therefore, a more appropriate conversion factor of 0.95 should be used.

DOC Position

At the time of the preliminary determination, we believed that 0.71 represented the factor used in Canada to convert a hog's live weight to a dressed-weight equivalent. We subsequently learned that that factor represented the conversion factor used by the domestic U.S. industry. We now have verified information, obtained from the Canadian federal and provincial governments, indicating that the actual factor used ranges from 0.79–0.80. Therefore, for purposes of this final determination, we are using a factor of 0.795.

We disagree with the Canadian meat Council's argument that a more appropriate factor of 0.95 should be used. Live swine are raised for the primary purpose of producing pork meat. Any commercial value resulting from the by-products is secondary to the production of pork meat. In fact, information from the U.S. Department of Agriculture indicates that the commercial value of the by-products is approximately 5 percent of the value of the hog. In our *Preliminary Affirmative Countervailing Duty Determination: Lamb Meat from New Zealand* (46 FR 58128), we examined benefits on lamb prooduction without making any adjustment for the commercial value of by-products. In that case, the commercial value of the by-products was even higher than in the case of swine. We have followed that precedent in this case.

7. The Canadian Pork Council contends that when converting the total number of hogs marketed to a dressed weight equivalent, the Department should not use a live weight of 248 pounds as it did in its preliminary determination, but instead use a live weight of 248 pounds (represented by U.S. import statistics as the average weight of *all* hogs imported from Canada in 1984).

DOC Position

We disagree. *See* our response to Petitioners' comment 2.

Petitioners' Comments

1. Petitioners argue that the subsidy rate for live swine should be stated on a per hog basis and should thus be calculated by dividing the total amount of subsidies paid by the number of hogs marketed during the period for which subsidization has been measured.

DOC Position

We disagree. We use the *Tariff Schedules of the United States Annotated* (TSUSA) as a guide when determining whether to base a subsidy or bonding rate on an *ad valorem*, per pound, per animal, or other basis. In the case of live swine, the TSUSA indicates a rate of duty on a per pound basis. We have no reason to deviate from the standard set out in the TSUSA.

2. Petitioners argue that the subsidy rate calculation for pork products should be based on an average live weight of 217 pounds (represented by Canadian government statistics as the average weight of slaughter hogs marketed), and a dressed-weight factor of 0.52. They contend that primal cuts represent the most commercially significant pork products exported to the United States and account for 52 percent of the weight of live hog.

DOC Position

With respect to petitioners' contention that the Department use a live weight of 217 pounds, we agree. This information is based on official Canadian government statistics and has been verified. However, we disagree with their argument that the Department use a factor converting total live weight to primal cuts. It may be true that the majority of exports from Canada may enter the United States in the form of primal cuts. However, because we are looking at domestic subsidies, we must allocate benefits over the total domestic production using a factor that accurately reflects the conversion from live- to dressed-weight for all products, and not just those exported to the United States. Accordingly, we are using a factor of 0.795.

Verification

In accordance with section 776(a) of the Act, we verified the information used in making our final determination. Commerce officials spent from April 1 to May 7, 1985, verifying the information submitted by the Canadian federal and provincial governments, and gathering additional information to be used in this determination. During this verification we followed normal verification procedures including inspection of documents and ledgers, and tracing the information in the response to source documents, accounting ledgers, and to financial statements.

Suspension of Liquidation

In accordance with section 703(d) of the Act, on April 3, 1985, we instructed the U.S. Customs Service to suspend liquidation of all entries of live swine and fresh, chilled and frozen pork products from Canada (50 FR 13284). As of the date of publication of this notice in the Federal Register, the liquidation of all entries, or withdrawals from warehouse, for consumption of this merchandise will continue to be suspended and the Customs Service shall require a cash deposit or bond for each such entry of this merchandise as follows:

All producers and exporters	Bonding rate
Live Weight (Live Swine) Dressed Weight (Fresh, Chilled and Frozen Pork Products)	Can $0.04360/lb. Can $0.05523/lb.

This suspension will remain in effect until further notice.

ITC Notification

In accordance with section 705(d) of the Act, we will notify the ITC of our determination. In addition, we are making available to the ITC all non-privileged and non-confidential information relating to this investigation. We will allow the ITC access to all privileged and confidential information in our files, provided the ITC 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 will determine whether these imports materially injure, or threaten material injury to, a U.S. industry 45 days of the publication of this notice.

If the ITC determines that material injury or the threat of material injury does not exist, this proceeding will be terminated and all estimated duties deposited or securities posted as a result of the suspension of liquidation will be refunded or cancelled. If, however, the ITC determines that such injury does exist, we will issue a countervailing duty order, directing Customs officers to assess a countervailing duty on live swine and fresh, chilled and frozen pork products from Canada entered, or withdrawn from warehouse, for consumption after the suspension of liquidation, equal to the net subsidy amount indicated in the "Suspension of Liquidation" section of this notice.

This notice is published pursuant to section 703(f) of the Act (19 U.S.C. 1671(f)).

William T. Archey,

Acting Assistant Secretary for Trade Administration.

June 10, 1985.

[FR Doc. 85-14400 Filed 6-14-85; 8:45 am]

BILLING CODE 3510-DS-M

APPENDIX C

CALENDAR OF HEARING

TENTATIVE CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : Live Swine and Pork from Canada

Inv. No. : 701-TA-224 (Final)

Date and time: June 25, 1985 - 10:00 a.m.

Sessions were held in the Hearing Room of the United States International Trade Commission, 701 E Street, N.W., in Washington.

Congressional appearances:

Honorable Berkley Bedell, United States Representative, State of Iowa

Honorable Jim Leach, United States Representative, State of Iowa

In support of the imposition of countervailing duties:

Thompson, Hine and Flory--Counsel
Washington, D.C.
on behalf of

The National Pork Producers Council
and
The Wilson Foods Corporation

Don Gingerich, Iowa Pork Producers

Russell Rowe, Michigan Pork Producer

Professor Glenn Grimes, Agricultural Economist,
University of Missouri

Eugene Cheney, Director of Product Sales,
Wilson Foods Corporation

Dr. Leonard Haverkamp, Vice-President, Economist,
Wilson Foods Corporation

Doyle Talkington, Administrator, Government Affairs
of the National Pork Producers Council

Mark Roy Sandstrom--OF COUNSEL

In opposition to the imposition of countervailing duties:

Cameron, Hornbostel & Butterman--Counsel
Washington, D.C.
on behalf of

The Canadian Pork Council

Howard Malcolm, President, Canadian Pork Council

Bill Vaags, Vice President, Canadian Pork Council and Chairman, Manitoba Hog Producers' Marketing Board

William Hamilton, Executive Secretary, Canadian Pork Council

Martin T. Rice, Assistant Executive Secretary, Canadian Pork Council

A. George Baker, Manager, Animal Products Division, Food and Consumer Products Division, Department of Regional Industrial Expansion, Canada

Lise Bergeron, Secretary, Federation des Producteurs de Porcs du Quebec

Helmut F. Loewen, General Manager, Ontario Pork Producers' Marketing Board

Jim Morris, General Manager, Saskatchewan Pork Producers' Marketing Board

William K. Ince--OF COUNSEL

Arnold & Porter--Counsel
Washington, D.C.
on behalf of

Canadian Meat Council

Professor Larry Martin, Professor of Agricultural Economics, University of Guelph, Ontario, Canada

George Abraham, President, Abraham and Associates

Joel Dorfman, President, Thorn Apple Valley, Inc.

Alan O. Sykes--OF COUNSEL

APPENDIX D

THE U.S. HOG CYCLE

The U.S. Hog Cycle

The hog cycle may be observed by comparing table 20, net margins, which indicates levels of profitability and hence production signals, with table D-1, which shows the quantity of pork derived from domestic live swine.

Table D-1. Pork: U.S. shipments derived from domestic live swine, by months, 1980-84 and January-May 1985

(In million of pounds)

Month	1980	1981	1982	1983	1984	1985
January	1,444	1,413	1,226	1,147	1,219	1,249
February	1,285	1,232	1,109	1,015	1,149	1,080
March	1,384	1,422	1,343	1,295	1,321	1,195
April	1,512	1,422	1,251	1,255	1,213	1,273
May	1,467	1,250	1,122	1,238	1,264	1,308
June	1,307	1,198	1,166	1,259	1,135	-
July	1,225	1,160	1,036	1,128	1,017	-
August	1,184	1,155	1,084	1,242	1,154	-
September	1,332	1,285	1,107	1,266	1,123	-
October	1,481	1,388	1,173	1,381	1,390	-
November	1,335	1,317	1,250	1,461	1,306	-
December	1,425	1,443	1,196	1,344	1,195	-
Total	16,381	15,684	14,063	15,031	14,487	-
						-

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

During the late 1970's, a number of factors encouraged expansion in the U.S. swine industry. Production signals, as evidenced by net margins during 1978 through April 1979, were positive. Demand for pork was strong at the same time supplies of competing beef were reduced because that industry had neared the culmination of the contraction phase of its cycle. In addition, feed prices, the major cost factor for swine growers, were moderate. Also, many observers contend that Federal tax regulations, which became effective during the late 1970's, encouraged investment in large-volume swine confinment facilities. Such facilities are eligible for investment tax credit and receive favorable tax treatment under the so-called accelerated cost recovery system (ACRS) of depreciation.

The lag between the positive signals in 1978 and early 1979 and larger pork shipments in 1979, which expanded to a peak of 16.4 billion pounds in 1980, reflect characteristics of the hog cycle. In part because farmers are used to volatile markets, a period of 2 to 6 months of higher or lower profits is normally required before most farmers will be convinced to change production plans; however, sharp movements in profit levels may shorten the response time. The previously mentioned biological factors also contributed to the lag. After farmers decide to retain gilts for breeding rather than market them for slaughter, they must be raised to sexual maturity in another 6 weeks to 2 months. The gilts are then bred. They farrow in about 4 months. The pigs that are farrowed are raised to slaughter weight in about 6 months.

Thus, a year or so may elapse between the time the initial decision to expand production is made and the additional supplies enter the market place. In addition to retaining gilts, farmers may withhold mature sows from the market during the expansion phase of the hog cycle. As farmers reduce marketings of gilts and sows, packers are forced to pay higher prices for the reduced supplies of live animals available to them, encouraging farmers to retain even more animals for breeding to expand future production.

Expanded supplies of pork that became available during 1979 apparently were too great to clear the market at prevailing prices. This contributed to declining prices and negative net margins (negative production signals) during the last three quarters of 1979, apparently triggering the contraction phase of the hog cycle, which resulted in increased swine slaughter and increased pork production recorded during 1980. Production signals were strongly negative during the first half of 1980.

Increased production of pork during periods of negative production signals reflects another aspect of the hog cycle. As profits decline, farmers decide to reduce future production by not retaining gilts for breeding and by selling mature sows. These increased supplies contribute to even lower prices, discouraging farmers, who respond by selling even more animals.

Positive net margins during the last half of 1980 were, in part, a weather-related phenomenon. During the summer of 1980, an intense heat wave caused the deaths of a significant number of poultry and swine. Reduced supplies of competing poultry meat, and somewhat reduced supplies of pork during the last half of the year compared to the first half of that year, contributed to higher prices and the previously mentioned positive signals. The heat wave also contributed to reduced feed production and led to speculation of sharply higher feed prices moderating the positive production signals.

The figures showing net margins in table 20 somewhat overstate positive margins and understate negative margins. Large supplies of swine contribute to lower prices and negative margins. Thus, many times when margins are negative farmers sell disproportionately large quantities of animals. Similiarly, when supplies are low there is a tendency for prices to be higher and net margins to be more strongly positive, but total returns are less.

Production signals remained strongly negative during 1981 even though pork production amounted to 15.7 billion pounds, down 4 percent from the level of a year earlier. The contraction phase of the hog cycle culminated in 1982, and pork production during that year amounted to 14.1 billion pounds, down 10 percent from that of 1981 and down 14 percent from that of 1980. With lower pork production during 1982, and consequent higher prices for both pork and swine, higher feed production and consequent moderate feed prices, profit margins were positive. Swine farmers responded as expected by building swine inventories during 1982. By the spring of 1983, pork production had risen, contributing to production levels of 15.0 billion pounds during 1983, up 7 percent from that of 1982. Production continued to expand through most of the first half of 1984.

Production signals were negative through almost all of 1983, reflecting in part both expanded pork production and conditions in the feed market.

During early 1983, the USDA implemented a payment-in-kind (PIK) program to reduce certain crop surpluses of corn. As a result of the PIK, farmers anticipated sharply higher feed costs, a deterrent to expanding swine inventories. Also, by early summer 1983, it became apparent that severe drought would reduce feed production and exert even more upward pressure on feed prices. Also during the summer of 1983, the National Pork Producers Council promoted a so-called 10-10 program, encouraging pork producers to market 10 percent of their sows, in order to prevent future surplus production, and to reduce market weights of animals by 10 percent.

Net margins remained negative through almost all of 1984 and through January-April 1985. Pork production began to decline by mid-1984 (production during 1984 amounted to 14.5 billion pounds, down 4 percent from that of 1983), and continued to decline throughout the first quarter of 1985 before increasing in April and May of 1985. The developments in pork production during the last half of 1984 through May 1985 apparently reflect reduced swine inventories rather than retention of animals for breeding to expand future production, indicating that the contraction phase of the hog cycle may not yet have culminated by May 1985.

In recent years, other factors have impacted the hog cycle. An increasing share of swine in the United States have been raised in relatively expensive containment-type facilities. Since such facilities represent a large investment, entry into the industry is more restricted than traditionally associated with the swine raising industry. Such confinement facilities also discourage producers from leaving the industry or reducing production, since producers will tend to continue to produce so long as they cover their variable costs and are able to contribute something to their relatively large fixed costs.

In contrast to the trend toward stable levels of swine inventories and pork production, feed costs have contributed to instability in the swine production industry. Since the early 1970's, feed costs, especially corn, have been more volatile than in previous years. The price instability, which continued through the mid-1980's, has contributed to sharp flucuations in net margin levels and, hence, sharp flucuations in production signals to swine farmers.

Also, representatives of the NPPC contend that imports of live swine and fresh, chilled, or frozen pork from Canada affected the U.S. hog cycle. The officials contend that U.S. imports from Canada suppressed prices in the United States by magnifying the negative impact of the hog cycle on their members and minimizing the positive affects. They also contend that Canadian swine growers no longer experience a hog cycle because Federal and Provincial payments offset losses.

In addition to the long-term cycle, the U.S. swine industry is subject to a cycle within each year. Many farmers, especially those who do not use confinement-type facilities, try to avoid having baby pigs born in the coldest months of the winter or the hottest months of the summer, because death losses are higher in litters farrowed during those times. Consequently, there is a tendency for supplies of swine for slaughter to be lower and prices to be somewhat higher about 6 months after the periods of reduced farrowings, i.e., around July and December.

APPENDIX E

SALES AND FINANCIAL DATA DEVELOPED FROM QUESTIONNAIRES SENT GROWERS

In the questionnaire sent to the growers, hog producers were asked to provide data on their swine sales from January 1982 to March 1985. A summary of these data from the responding growers is shown in the following tabulation:

Item	1982	1983	1984	January-March--	
				1984	1985
Quantity of swine sold--number--	25,849	26,183	26,115	6,113	6,829
Value of swine sold--1,000 dollars--	3,164	2,778	2,754	639	723
Average value--per head--	$122	$106	$105	$104	$106

These data indicate that growers earned declining revenue from steady sales during 1982-84. Although sales increased by 12 percent during January-March 1985 when compared with those in the corresponding period of 1984, the increase probably reflects the selling off of swine that would have normally been kept for breeding.

Ten hog growers furnished usable income-and-loss data on their overall farming operations and on operations producing live swine.

Overall farm operations (cash method).--Of the 10 hog growers that provided usable operating statements, 8 growers utilized the cash method of reporting their farming and live swine operations. Collectively, the net sales and other income of all products produced on the farms where swine were grown decreased from $3.4 million in 1982 to $3.1 million in 1983, or by 8.3 percent, and then increased by 3.8 percent to $3.2 million in 1984 (table E-1).

These growers earned an aggregate farm operating income of $896,000 in 1982, or 26.6 percent of net sales. In 1983 and 1984, the hog growers reported aggregate farm operating incomes of $354,000 and $247,000, respectively, or 11.4 percent of net sales in 1983 and 7.7 percent in 1984.

Two growers reported net farm losses in 1982, three in 1983, and four in 1984. Aggregate net farm profit was $567,000 in 1982, $171,000 in 1983, and $33,000 in 1984.

Table E-1.--Income-and-loss experience (cash method) of 8 U.S. hog growers 1/ on their overall farm operations where live swine are produced, accounting years 1982-84

Item	1982	1983	1984
Net sales:			
Live swine sales----------1,000 dollars--	2,588	2,233	2,245
Other swine sales----------do----	96	84	72
Other products and livestock sales do----	129	166	233
Other income----------do----	561	612	664
Total net sales and other income--do----	3,374	3,095	3,214
Farm deductions:			
Feeder pigs----------do----	110	48	51
Labor hired less job credits--------do----	268	288	298
Repairs, maintenance----------do----	72	69	99
Rent of farm----------do----	122	101	109
Feed purchased----------do----	979	1,241	1,242
Seeds, plants purchased----------do----	34	41	58
Machine hire----------do----	16	6	17
Supplies purchased----------do----	30	42	39
Breeding fees----------do----	0	0	2
Veterinary fees, medicine----------do----	45	48	62
Gasoline, fuel, oil----------do----	110	116	119
Storage, warehousing----------do----	1	0	0
Taxes----------do----	48	44	55
Insurance----------do----	36	33	54
Utilities----------do----	67	81	86
Freight, trucking----------do----	22	27	30
Conservation expenses----------do----	0	0	0
Pension and profit sharing----------do----	0	0	0
Employee benefit programs----------do----	2	3	3
Depreciation----------do----	306	305	326
Other----------do----	210	248	317
Total deductions----------do----	2,478	2,741	2,967
Farm operating income or (loss)-------do----	896	354	247
Interest----------do----	329	183	214
Net farm profit or (loss)----------do----	567	171	33
Number of growers reporting net farm loss number--	2	3	4

See footnotes at end of table.

Table E-1.--Income-and-loss experience (cash method) of 8 U.S. hog growers 1/ on their overall farm operations where live swine are produced, accounting years 1982-84--Continued

Item	1982	1983	1984
As a share of total net sales and other income:			
Total net sales----------percent--	100.0	100.0	100.0
Feeder pigs----------do----	3.3	1.6	1.6
Labor hired less job credits------do----	7.9	9.3	9.3
Repairs, maintenance----------do----	2.1	2.2	3.1
Rent of farm----------do----	3.6	3.3	3.4
Feed purchased----------do----	29.0	40.1	38.6
Seeds, plants purchased----------do----	1.0	1.3	1.8
Machine hire----------do----	.5	.2	.5
Supplies purchased----------do----	.9	1.4	1.2
Breeding fees----------do----	-	-	.1
Veterinary fees, medicine---------do----	1.3	1.6	1.9
Gasoline, fuel, oil----------do----	3.3	3.7	3.7
Storage, warehousing----------do----	2/	0.	0.
Taxes----------do----	1.4	1.4	1.7
Insurance----------do----	1.1	1.1	1.7
Utilities----------do----	2.0	2.6	2.7
Freight, trucking----------do----	.7	.9	.9
Conservation expenses----------do----	-	-	-
Pension and profit sharing--------do----	-	-	-
Employee benefit programs---------do----	.1	.1	.1
Depreciation----------do----	9.1	9.9	10.1
Other----------do----	6.2	8.0	9.9
Total deductions----------do----	73.4	88.6	92.3
Farm operating income or (loss)-do----	26.6	11.4	7.7
Interest----------do----	9.8	5.9	6.7
Net farm profit or (loss)---------do----	16.8	5.5	1.0

1/ * * *.

2/ Percentage is insignificant.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Live swine operations (cash method).--Net sales of live swine fell from $2.6 million in 1982 to $2.2 million in 1983, representing a 13.7-percent decrease, and then increased by 0.5 percent in 1984 (table E-2).

Hog growers earned an aggregate farm operating income from swine-growing operations in 1982 and 1983 and incurred an aggregate farm operating loss in 1984. Operating income in 1982 was $632,000, or 24.4 percent of sales; in 1983, it was $102,000, or 4.6 percent of sales. The operating loss in 1984 was $94,000, or 4.2 percent of live swine sales. Interest expense in 1983 exceeded operating income, which caused an aggregate net loss of $53,000. The aggregate net loss increased in 1984 to $259,000.

Three of the eight hog growers reported net farming losses in 1982 compared with five in 1983 and six in 1984.

Overall farm operations (accrual method).--Of the 10 hog growers that provided usable operating statements, 2 utilized the accrual method of reporting their farming and live swine operations. Collectively, net sales and other income of all products grown on these farms where swine are grown remained essentially unchanged at about * * * during 1982-84 (table E-3).

Collectively, these hog growers earned an aggregate operating income of * * * in 1982, or * * * percent of net sales and other income. In 1983 and 1984, the growers reported aggregate operating incomes of * * * and * * *, respectively, which were * * * percent in 1983 and * * * percent in 1984 of net sales and other income.

Table E-2.--Income-and-loss experience (cash method) of 8 U.S. hog growers 1/ on their operations producing live swine, accounting years 1982-84

Item	1982	1983	1984
Live swine sales----------1,000 dollars---	2,588	2,233	2,245
Farm deductions:			
Feeder pigs----------do----	77	31	39
Labor hired less job credits--------do----	215	223	235
Repairs, maintenance----------do----	40	43	62
Rent of farm----------do----	114	74	77
Feed purchased----------do----	950	1,219	1,211
Seeds, plants purchased----------do----	19	16	57
Machine hire----------do----	11	4	7
Supplies purchased----------do----	17	23	25
Breeding fees----------do----	0	0	2
Veterinary fees, medicine----------do----	45	48	61
Gasoline, fuel, oil----------do----	54	55	54
Storage, warehousing----------do----	1	0	0
Taxes----------do----	38	33	43
Insurance----------do----	34	26	42
Utilities----------do----	51	58	66
Freight, trucking----------do----	19	20	19
Conservation expenses----------do----	0	0	0
Pension and profit sharing----------do----	0	0	0
Employee benefit programs----------do----	2	3	3
Depreciation----------do----	160	165	178
Other----------do----	109	90	158
Total deductions----------do----	1,956	2,131	2,339
Farm operating income or (loss)-------do----	632	102	(94)
Interest----------do----	291	155	165
Net farm profit or (loss)----------do----	341	(53)	(259)
Number of growers reporting net farm loss number---	3	5	6

See footnotes at end of table.

Table E-2.--Income-and-loss experience (cash method) of 8 U.S. hog growers 1/ on their operations producing live swine, accounting years 1982-84--Continued

Item	1982	1983	1984
As a share of live swine sales:			
Live swine sales----------percent----	100.0	100.0	100.0
Feeder pigs----------do----	3.0	1.4	1.7
Labor hired less job credits--------do----	8.3	10.0	10.5
Repairs, maintenance----------do----	1.5	1.9	2.8
Rent of farm----------do----	4.4	3.3	3.4
Feed purchased----------do----	36.7	54.6	53.9
Seeds, plants purchased----------do----	.7	.7	2.5
Machine hire----------do----	.4	.2	.3
Supplies purchased----------do----	.7	1.0	1.1
Breeding fees----------do----	-	-	.1
Veterinary fees, medicine----------do----	1.7	2.1	2.7
Gasoline, fuel, oil----------do----	2.1	2.5	2.4
Storage, warehousing----------do----	2/	0	0
Taxes----------do----	1.5	1.5	1.9
Insurance----------do----	1.3	1.2	1.9
Utilities----------do----	2.0	2.6	2.9
Freight, trucking----------do----	.7	.9	.8
Conservation expenses----------do----	-	-	-
Pension and profit sharing----------do----	-	-	-
Employee benefit programs----------do----	.1	.1	.1
Depreciation----------do----	6.2	7.4	7.9
Other----------do----	4.2	4.0	7.0
Total deductions----------do----	75.6	95.4	104.2
Farm operating income or (loss)-----do----	24.4	4.6	(4.2)
Interest----------do----	11.2	6.9	7.3
Net farm profit or (loss)----------do----	13.2	(2.4)	(11.5)

1/ * * *.

2/ Percentage is insignificant.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table E-3.--Income-and-loss experience (accrual method) of 2 U.S. hog growers 1/ on their overall operations where live swine are produced, accounting years 1982-84

* * * * * * *

Both hog growers mentioned in table E-3 reported profitable operations throughout the period under investigation.

Live swine operations (accrual method).--Net revenues from the sale of live swine remained fairly stable in the * * * to * * * range during 1982-84 (table E-4). The two hog growers earned aggregate net farm profit for each period under review. Net farm profit in 1982 and 1983 was * * *, or * * * percent of sales in 1982 and * * * percent in 1983; in 1984, it was * * * or * * * percent of sales.

Table E-4.--Income-and-loss experience (accrual method) of two U.S. 2 growers 1/ on their farm operations producing live swine, accounting years 1982-84

* * * * * * *

Capital expenditures by growers.--Ten U.S. hog growers supplied information on their capital expenditures for land, buildings, and machinery and equipment used to grow live swine. Capital expenditures are shown in the following tabulation:

	Capital expenditures
1982----------	1/ $22,000
1983----------	2/ $77,000
1984----------	3/ $134,000

1/ Data are for * * * farms; * * * farms reported no capital expenditures.
2/ Data are for * * * farms; * * * farms reported no capital expenditures.
3/ Data are for * * * farms.

APPENDIX F

STATEMENTS BY U.S. PACKERS

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APPENDIX G

THE EFFECTS OF CANADIAN IMPORTS ON THE PRICE OF LIVE SWINE IN THE UNITED STATES

Since imported live swine from Canada are generally comparable with the U.S. product, it can be argued that the U.S. price would be higher if these imports had not increased. From 1981 to 1984 the volume of Canadian imports of slaughter hogs rose from about 150,000 to about 1.3 million head. The Canadian share of the U.S. market increased from 0.2 percent to 1.6 percent. If Canadian imports had remained at their 1981 level in 1984, the total supply of slaughter hogs in the U.S. market would have been 1.4 percent lower.

Estimates of the U.S. price effects of these increased imports depend upon the assumed value of the price elasticity of demand for live swine. The higher the elasticity, the smaller the price effect of the increased imports. Thus, if the elasticity is -1, then the increase in Canadian imports resulted in a 1.4-percent decline in the U.S. price in 1984 from the level that would have prevailed if Canadian imports had remained at their 1982 level. But if the elasticity is only -.5, the price decline amounted to 2.8 percent. 1/

1/ The percentage change in price was calculated by multiplying the percentage change in quantity by the reciprocal of the price elasticity.

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