Lamb Meat

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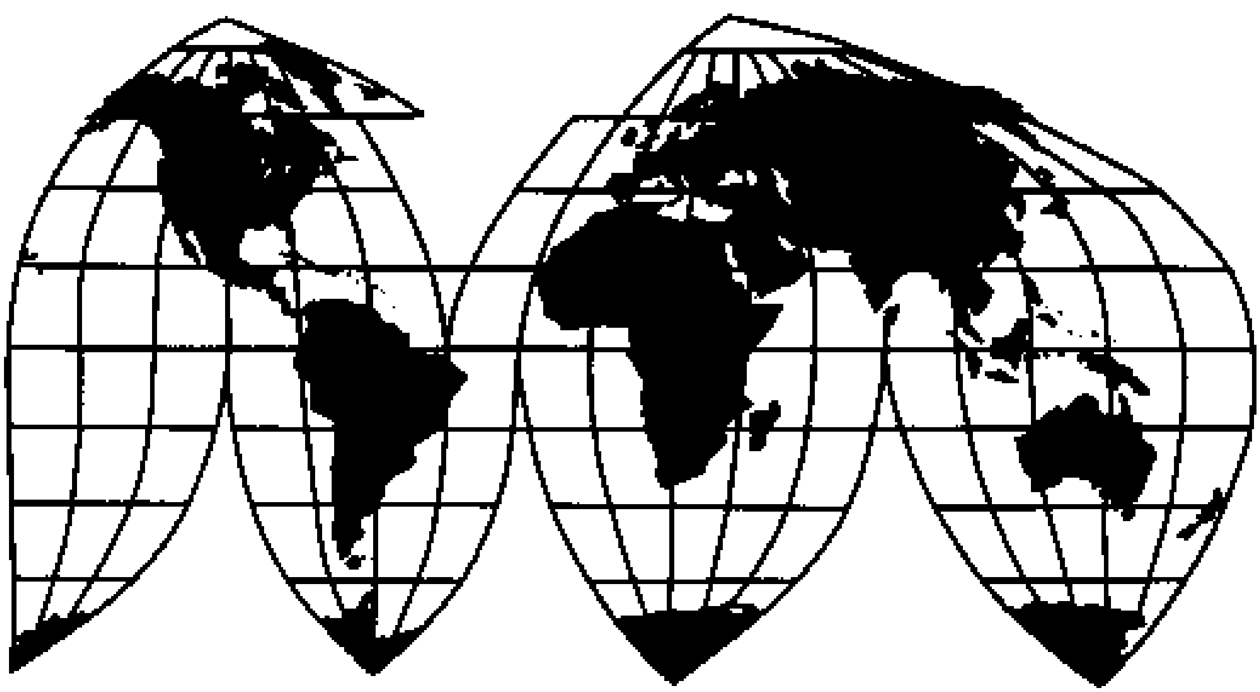

Washington, DC 20436

U.S. International Trade Commission

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EXECUTIVE SUMMARY

On July 7, 1999, following a unanimous affirmative determination of threat of serious injury by the Commission under section 201 of the Act, the President proclaimed the imposition of a tariff-rate quota (TRQ) on imports of fresh, chilled and frozen lamb meat. The President applied the TRQ to lamb meat imports from Australia, New Zealand, and all other countries with the exception of Canada, Mexico, Israel, and beneficiary countries under the Caribbean Basin Economic Recovery Act and the Andean Trade Preference Act. In addition to the TRQ, the President on July 7, 1999 directed the Administration to develop an effective adjustment assistance package to help the domestic lamb meat industry to make a positive adjustment to import competition. In response to the directive, the U.S. Secretary of Agriculture on January 13, 2000 announced a 3-year, $100 million assistance package for sheep and lamb farmers.

The Presidential proclamation provided for a 3-year TRQ covering exports of lamb meat from July 22, 1999 through July 22, 2002. In-quota quantities under the TRQ are assessed a tariff rate of 9 percent *ad valorem* for year 1 of the TRQ, 6 percent for year 2, and 3 percent for year 3. The rate of duty for over-quota imports is 40 percent *ad valorem* for year 1, decreasing to 32 and 24 percent, respectively, over the next 2 years. The in-quota allocations by country are as follows:

July 22, 1999-July 21, 2000:	
Australia	17,139,582 kg (37,786,300 pounds)
New Zealand	14,481,603 kg (31,926,461 pounds)
Other countries . . .	229,966 kg (506,988 pounds)
July 22, 2000-July 21, 2001:	
Australia	17,600,931 kg (38,803,400 pounds)
New Zealand	14,871,407 kg (32,785,831 pounds)
Other countries . . .	236,155 kg (520,633 pounds)
July 22, 2001-July 22, 2002:	
Australia	18,062,279 kg (39,820,498 pounds)
New Zealand	15,261,210 kg (33,645,199 pounds)
Other countries . . .	242,346 kg (534,281 pounds)

The Commission's monitoring investigation collected data for the period 1997-99 and the January-June periods of 1999 and 2000. 1997 was the last full year for which data were collected in the original section 201 investigation. The quantity of imports of lamb meat from all sources increased steadily from 1997 to 1999 and during the interim periods, in absolute terms and relative to U.S. production and consumption, although import gains were not as great in 1999 and January-June 2000 as in 1998. Imports increased by 28.8 percent from 1997 to 1998, but only by 6.7 percent from 1998 to 1999 and by 6.4 percent in the interim periods. The ratio of imports to production rose by 8.1 percentage points from 1997 to 1998, but only by 2.6 percentage points from 1998 to 1999 and by 2.9 percentage points in the interim periods. Similarly, the ratio of imports to consumption increased by 4.6 percentage points from 1997 to 1998, but only by 1.3 percentage points from 1998 to 1999 and by 2.3 percentage points in the interim periods.

However, a comparison of somewhat different periods reveals a decrease in imports. In the 12 months following imposition of the TRQ (August 1999-July 2000), the quantity of imports from all sources fell by 2.7 percent in comparison to the preceding 12-month period. Imports from Australia increased by 0.1 percent during this period, while imports from New Zealand decreased by 8.5 percent. Imports from all other sources more than doubled but remained well below 2 percent of total imports.

According to United States Department of Agriculture (USDA) data, domestic feeder lamb prices were higher in every month since the TRQ went into effect, through November 2000, in comparison with prices in the same month of the previous year. The same was true with respect to slaughter lamb prices for 13 out of 16 months and lamb carcass prices for 12 out of 16 months. Domestic prices reported in questionnaires for selected cuts of lamb meat fluctuated in the third and fourth quarters of 1999 and the first quarter of 2000 relative to the same quarter of the previous year, but were uniformly higher in the second quarter of 2000 compared to the second quarter of 1999.

U.S. producers generally showed some improvement in their financial condition in the most recent periods. However, growers continued to experience losses in fiscal year 1999 and could not provide meaningful interim period data because their expenses in those periods did not track their revenues due to the seasonal nature of their operations. Feeders showed the greatest improvement, moving from a net loss of 9.9 percent in 1998 to breaking even in 1999 and a net profit of 4.8 percent in January-June 2000. Packers showed little change in profitability, posting *** in 1998, 1999, and the January-June periods of 1999 and 2000. Packer/breakers saw minor improvements in their financial results, realizing *** in 1999 and January-June 2000.

The four major components of the President's Domestic Lamb Industry Adjustment Assistance Program (the Adjustment Assistance Program, or the Program) include: (1) productivity improvements, (2) market promotion, (3) domestic lamb meat purchases, and (4) scrapie eradication. The productivity improvements section of the Program provides for funding in the form of guaranteed loans and direct payments to individual operators; a total of $65 million is to be distributed during the 3-year period. The market promotion element of the Program calls for $5 million in funds to be released by USDA in the first year, to be used to directly increase the sale of U.S. lamb products by focusing on marketing, merchandising, value-added proposals, market feasibility analysis, and market identification. The third part of the Program provides for USDA to purchase up to $15 million of domestic lamb meat products over 3 years to assist sheep and lamb producers. Scrapie eradication was the fourth component of the President's adjustment plan; $15 million over the first 2 years was set aside for this segment of the Program.

Almost all questionnaire respondents reported that they had not seen any effect of the Adjustment Assistance Program, as considerable delays occurred in the delivery of benefits under year 1 of the Program (July 22, 1999 through September 30, 2000). Funds totaling $10 million in the form of direct cash payments were eventually made available beginning in June 2000, although most of the funds were disbursed in the fall of 2000. In October 2000, a 3-year set-aside was established with funds totaling $25 million to assist processors. Nearly $4 million in grants to fund marketing and promotion projects were made available in November 2000. USDA purchased $4.1 million of lamb roasts in 2000. It has issued a number of rules in the past year with respect to tracking flocks and accelerating the eradication of scrapie.

The President instructed the United States Trade Representative (USTR) to provide the Commission with recommended benchmarks for use in monitoring developments in the domestic lamb industry. The USTR provided the Commission with six benchmarks which are discussed in turn below.

1. Evaluate the effort and success of the industry to put forth a coordinated and comprehensive strategy for market development; and the industry's utilization of any future checkoff program or other program using industry funds for generic lamb promotion.

A number of industry groups and individual producers have initiated market development efforts, although a coordinated and comprehensive strategy for the industry has not yet emerged. USDA recently awarded $3.85 million in market promotion funds of the National Sheep Industry Improvement Center (NSIIC). USDA awarded the funds to various industry entities, including an award to the American Sheep Industry Association (ASI) to assist it in implementing a multi-point marketing proposal. USDA has solicited proposals for a checkoff program using industry funds for generic lamb promotion but has not yet published a proposed checkoff for comments.

2. Assess the domestic industry's progress in facilitating implementation of the programs of the National Sheep Industry Improvement Center (NSIIC), including the disbursement of funds made available to the NSIIC. The USITC should look to the NSIIC's strategic plan as a basis for assessing the industry's progress.

The award of NSIIC market promotion funds is mentioned above. In addition, the NSIIC, through an agreement with the National Livestock Producers Association, awarded its first loan to assist the sheep industry in various other ways in September 2000. Two additional loans have been approved and others are in various stages of finalization. The Commission has carefully examined the NSIIC's strategic plan in assessing the industry's progress in this area.

3. Evaluate the petitioner's effort and success in establishing a membership base for the National Sheep Association (NSA), or for some other association or coalition representative of the entire U.S. industry.

The NSA is still in an early stage of development and continues to solicit members. As of November 2000, NSA had 245 members and was in the process of electing a Board of Directors to begin serving in January 2001. A number of producers, feeders, and industry organizations, including the ASI, were involved in coordinated efforts to set up NSA. NSA is based on individual memberships; consequently, ASI, as an association, cannot participate and vote in NSA as a representative of its members. Nevertheless, some of ASI's members have contributed individually to NSA. The U.S. Sheep Seedstock Alliance no longer exists as a separate entity and its members, as individuals, have joined NSA. The National Lamb Feeders Association is currently in negotiations to merge into NSA, and the *** are considering that option. A number of other organizations such as the National Meat Association, North American Meat Processors, and the American Textile Manufacturers Institute have contributed time and financial support to setting up NSA but are unable to merge into NSA because they also represent industries for other animal species.

4. Evaluate the domestic industry's progress in improving production efficiency, industry alliances, sheep ecology, and reducing sheep diseases. When evaluating progress in reducing sheep diseases, the Commission's analysis should reflect any sheep disease eradication programs of the USDA.

Growers, feeders, packers, and breakers individually reported making investments and taking various actions to improve production efficiency. A number of firms have formed regional alliances to market and promote lamb meat. One of the most serious diseases affecting sheep is scrapie. USDA's Animal and Plant Health Inspection Service has in place a $10 million scrapie eradication program to diagnose, track, and control the disease, and has implemented a number of actions through that program in the past year.

5. Provide information on price trends (retail and wholesale) for domestic and imported lamb meat and identify and assess the variables (including the safeguard measure) which may have influenced these trends.

Domestic lamb prices generally improved following the imposition of the TRQ. Prices were particularly strong in the spring and summer of 2000. According to USDA data, domestic feeder lamb prices were higher in every month since the TRQ went into effect, through November 2000, in comparison with prices in the same month of the previous year. The same was true with respect to slaughter lamb prices for 13 out of 16 months and lamb carcass prices for 12 out of 16 months.

Prices reported to the Commission show increases for most imported lamb meat products since the TRQ went into effect. Most importers and purchasers have indicated that prices for imported lamb have increased since imposition of the TRQ. By contrast, the TRQ appeared to have little effect on the landed, duty-paid unit values of imports as reported to Customs. Unit values of imported carcasses, half carcasses, and various bone-in and boneless cuts from Australia and New Zealand, whether fresh or frozen, generally exhibited similar patterns and values after the imposition of the TRQ as before.

Drought and other factors reduced supply in some parts of the country and may have led to higher lamb prices. Also, higher retail prices for some potential substitutes, such as beef and veal, may have contributed to high lamb meat prices. Demand for lamb meat appears to have remained relatively stable.

6. Evaluate the domestic industry's progress in making available lamb products with characteristics and price attractive to consumers (as evidenced, for example, by supplier contracts like imported lamb attracts). The Commission should also evaluate the industry's effort to increase the supply of lamb meat within the constraints imposed by the lamb production cycle.

A number of growers have developed logos to promote brand names, while others have targeted niche markets. New lamb products, such as ground lamb meat, have also entered the market. The emphasis has been on more convenient case-ready products. The cuts are smaller, the lamb meat is leaner and frequently boneless, and the product is individually wrapped so that the retailer does not have to cut, trim, or package his lamb meat purchases. The industry also has developed new types of lamb roasts, steaks, sausage, kebobs, and slices.

While many growers indicated in questionnaire responses that they were retaining additional lambs for breeding, a number of growers, especially those in Texas and the western states, indicated that lack of feed caused by drought and fires precluded them from retaining lambs for breeding. According to USDA data, the number of ewes retained for breeding purposes declined from January 1, 1999 to January 1, 2000. The lamb crop similarly declined from 1998 to 1999 and is projected to further decrease in 2000.