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THE WHITE HOUSE

WASHINGTON

November 26, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN

FROM: JAMES E. CONNOR JEC

SUBJECT: Meat Import Options for 1977

The President has reviewed your memorandum of November 23 on the above subject and has approved Option 2: Negotiate voluntary restraints at or near the 1977 tirgger level of 1,282 million pounds.

Please follow-up with the appropriate action.

cc: Dick Cheney

THE WHITE HOUSE

WASHINGTON

November 23, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS by RBP

SUBJECT: Meat Import Options for 1977

The Meat Import Act of 1964 requires the President to restrict imports to an adjusted base quantity if the Secretary of Agriculture estimates that, in the absence of restraints, imports of fresh, chilled, or frozen beef, veal, mutton, and goat meat will equal or exceed the trigger level (110 percent of the adjusted base quantity). The adjusted base quantity, calculated annually, would keep imports at the same percentage of production as during the 1959-63 base period. For 1977, the USDA has estimated that imports in the absence of restraints would total between 1,580 and 1,630 million pounds, about 300-350 million pounds above the 1977 trigger level of 1,281.9 million pounds (Tab A). The law does, however, provide that the President may suspend quotas or increase the quantity of meat imports under certain conditions such as overriding economic or national security interests. This memorandum seeks your decision with respect to the meat import program for 1977.

Application of the Law in Recent Years

In past years, various policy alternatives have been used to avoid the imposition of quotas:

- -- In 1969, the first half of 1970, 1975, and the first three quarters of 1976, voluntary agreements were reached with major supplying countries to restrain imports below the trigger level, so that it was not necessary for the President to impose quotas.

- -- In the second half of 1970, all of 1971, and the first half of 1972, the President suspended quotas, under powers granted to him in the Meat Import Act, with voluntary restraints above the trigger level.

-- In the second half of 1972 and all of 1973 and 1974, the President suspended quotas with no restraints on imports.

For the first time in the 12-year history of the Meat Import Act formal quotas were imposed by Presidential Proclamation on October 9, 1976, after the Department of Agriculture estimated that 1976 meat imports would exceed the trigger level by 17 million pounds despite the voluntary restraint program. Excess imports resulted from larger than estimated imports from Canada. We have traditionally not restricted trade in beef with Canada and, therefore, we did not have a voluntary restraint agreement with Canada.

Impact of Imports on Beef Consumers and Producers

Retail beef prices in 1976 averaged approximately $1.39 per pound. USDA has recently estimated that retail beef prices in 1977 will average approximately $1.50 per pound assuming that imports do not exceed the trigger level of 1,282 million pounds. Beef supplies are expected to decline 5 percent next year. At the trigger level, beef available for U.S. consumption in 1977 is estimated at 121 pounds per person compared with 128 pounds per person in 1976. If imports are unrestricted, the per capita beef supply would increase about 2.1 to 2.4 pounds, reducing retail beef prices an estimated 1.5 to 3 percent. This would result in consumer savings in the range of $520-$1,040 million. Producers would lose an almost equal amount in total receipts from cattle sales.

The outlook for the second half of the year will be strongly affected by producer returns in the first half of the year, pasture conditions, and the U.S. feedgrain situation for 1977. These conditions suggest that any 1977 import program may require revision as the year progresses.

Policy Considerations

A quota system in 1977 raises several trade and foreign policy questions. First, to be consistent with the nondiscrimination provisions of GATT and the Meat Import Act, country quotas must be based on trade during a representative historical period. Under this criterion the quota for Canada would be proportionally smaller than this year's quota for "other" countries, which includes Canadian imports. Such a reduced quota would invite retailiation by Canada against exports of meat and perhaps livestock from the U.S. Second, indication of our intent to employ quotas again in 1977 would, even if the nondiscrimination test were met, almost assure GATT proceedings against our present quotas and could stimulate retaliation by other countries against U.S. exports that might not occur if our present quotas were seen as a temporary measure. The GATT retaliation could cover up to $1 billion in U.S. exports or could be directed to reduce U.S. exports by an estimated $150-$200 million. Australia and New Zealand would likely retaliate against imports of U.S. industrial products. They have already requested a review under GATT of our 1976 quota action. Presumably, however, they will not pursue their request if quotas are not continued in 1977. Finally, the continuation of meat quotas in 1977 could (1) be interpreted as a clear departure from our negotiating posture which has favored greater trade liberalization, and (2) reduce the prospect for substantial liberalization of trade in agriculture commodities. We have in the past opposed such quotas and have obtained a specific GATT waiver for our Section 22 quotas.

Negotiation of another voluntary restraint program in 1977 is likely to be very difficult in view of the problems experienced in the program this year. While recognizing these difficulties, the Department of State believes that voluntary restraint agreements might be negotiated successfully with foreign governments, especially if it could again be demonstrated that participants would enjoy greater access to the U.S. market under voluntary restraint agreements than they would under formal quotas. There is general agreement that as a negotiating strategy, if you determine to seek voluntary restraint agreements, that the major supplying countries should be informed that if there is not agreement on a voluntary restraint program quotas would be imposed at a more restrictive level than under voluntary restraints.

Options

The EPB Executive Committee has reviewed this issue. Four policy options are outlined for your consideration.

Option 1: Impose import quotas at or near the 1977 trigger level of 1,282 million pounds.

Options 1 and 2 would both permit U.S. meat imports to increase by 49 million pounds over 1976 imports.

Advantages:

- ° Quotas would have maximum support of the domestic livestock industry.

- ° Quotas would protect the domestic livestock industry consistent with the Meat Import Act.

Disadvantages:

- ° Quotas would place the U.S. in violation of its GATT obligations and could result in requirements for compensation or retaliation by major supplying countries.

- ° Quotas run counter to and could imperil our trade liberalization objectives in the MTN.

- ° Imports at or near the trigger level would result in lower supplies of meat and higher consumer prices than under a less restrictive policy.

<u>Option 2</u>: <u>Negotiate volunatry restraints at or near the 1977 trigger level of 1,282 million pounds</u>.

If you decide to seek voluntary restraints, supplying countries will be asked to send representatives to Washington about December 1 with the understanding that voluntary restraint negotiations must be completed by about December 15.

Advantages:

- ° Voluntary restraints at or near the 1977 trigger level would provide protection for the domestic livestock industry consistent with the Meat Import Act.

- ° A voluntary restraint program avoids the problems in the MTN and the GATT which would result from quotas.

- ° The domestic livestock industry would not oppose this approach.

Disadvantages:

- Voluntary restraints may be difficult to negotiate for 1977 because of problems with the 1976 program.

- Imports at or near the trigger level would result in lower supplies of meat and higher consumer prices than a less restrictive policy.

<u>Option 3</u>: <u>Negotiate voluntary restraints above the 1977 trigger level of 1,282 million pounds</u>.

Advantages:

- Negotiations will be easier than under Option 2.

- This option will result in lower beef prices for consumers than a more restrictive policy.

- A voluntary restraint program avoids the problems in the MTN and the GAAT which would result from quotas.

Disadvantages:

- U.S. livestock producers would strongly oppose imports above the trigger level which would provide less support for cattle prices than a more restrictive policy.

- Imports above the trigger level would be difficult to justify under the intent of the Meat Import Act.

<u>Option 4</u>: <u>Suspend quotas with no restraints on imports</u>.

Advantages:

- An open market because of larger supplies from greater imports provides the lowest consumer prices. The expected increase in beef imports would mitigate the expected 5 percent decrease in per capita beef supplies in 1977.

- An open market is consistent with our trade liberalization objectives in the MTN.

Disadvantages:

- ° An open market in 1977 is counter to the intent of the Meat Import Act in that it does not protect the U.S. livestock industry under the conditions in which the Act calls for protection.
- ° An open market would likely result in continued losses to cattle producers and further reductions in cattle inventories.
- ° An open market is strongly opposed by the U.S. livestock producers.

Decision

Option 1: _________ Impose import quotas at or near the 1977 trigger level of 1,282 million pounds.

Supported by:

Option 2: MR 7 Negotiate voluntary restraints at or near the 1977 trigger level of 1,282 million pounds.

Supported by: Agriculture, Commerce, STR, Cannon, Buchen

Option 3: _________ Negotiate voluntary restraints above the 1977 trigger level of 1,282 million pounds.

Supported by: State, CEA, NSC, Marsh, Labor

Option 4: _________ Suspend quotas with no restraints on imports.

Supported by: Treasury, OMB

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IMPORTS OF MEATS SUBJECT TO P.L. 88-482
(Million pounds, product weight)

Country of Origin	Actual Imports 1975	Quota Allocations 1976	Estimated Imports of Absence Restraints 1977
Australia	679.4	632.2	850-880
New Zealand	275.4	259.8	360
Mexico	29.8	52.0	40-60
Canada	21.2	81.9	85
Ireland	6.8	4.1	0
United Kingdom	0.8	0.0	0
Caribbean Area	195.6	203.0	245
Total	1,208.9	1,233.0	1,580-1,630

Date: November 4, 1976