RISING COST OF MEAT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MARKETING AND CONSUMER RELATIONS

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

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CONTENTS

RISING COST OF MEAT

THURSDAY, OCTOBER 3, 1974

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MARKETING AND
CONSUMER RELATIONS OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 1301, Longworth House Office Building, Hon. Joseph P. Vigorito (chairman of the subcommittee) presiding.

Present: Representatives Vigorito, Sisk, Denholm, Goodling, and Findley.

Also present: Representative Poage (chairman of the full committee).

Staff members present: Hyde Murray, associate counsel; Steve Allen, staff consultant; and Fowler C. West, staff director.

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations is now in session for further hearings on the current meat price situation and emphasis on the wide spread between what the farmers receive and what the housewife has to pay.

We have had 3 days of hearings in April, serial no. 93–AAA, and I think it was pretty well established at that time that the farmers, producers, and feed lot operators are getting a declining price for their product at the same time the prices at the retail level remain high, and decline very slightly; not anywhere near the percentage of decline experienced at the producer level.

We have scheduled further hearings for today and Tuesday, October 8, with the hope that we could gather more information and get some new information from the meat producers and retail outlets. Unfortunately, they haven't responded to our request to either send a representative or present a statement and I would like for the record to show that the following invitations went to the following: Giant Food, Safeway, Atlantic & Pacific, and Kroger.

Miss Ester Peterson from Giant could not come because of other commitments and she reported that no one else can take her place. That is the first time I have known anyone to be indispensable. If she can't come at the scheduled time, I would be very happy to reschedule this hearing at any time and any place that anyone from these four chains wish to have it. They could present their evidence at that time.

Mr. FINDLEY. Mr. Chairman, I wonder if you can comment on the response of the others? Did you have any response from the others?

Mr. VIGORITO. Well, they all responded and all gave reasons why they couldn't make it, and couldn't send a statement. However, Kroger said that they would send a statement. Well, that is just a mere statement without the chance of cross-examining the witnesses.

Mr. FINDLEY. Did any of them express a willingness to appear personally on a different date?

Mr. VIGORITO. No, they did not volunteer to come on another date or time or place.

Mr. FINDLEY. They didn't exactly display a cooperative attitude then?

Mr. VIGORITO. Definitely not. There was no cooperation whatsoever.

Mr. FINDLEY. I think that is most unfortunate. I commend the chairman for his effort to get these witnesses before the subcommittee and I express deep regret and chagrin that these prominent elements in the private sector have chosen not to cooperate with this public forum.

Mr. GOODLING. Will the gentleman yield on that?

Don't we have subpena power, Mr. Chairman?

Mr. VIGORITO. I do believe we have.

Mr. SISK. Will the gentleman yield on that? That was the question I was going to raise, Mr. Chairman, to seek subpena power. I think these people should be brought in. I am looking at some recent figures here in regard to what is happening at the retail level. I think they ought to be brought in and required to justify what amounts to an increase in price in the face of low prices to producers.

I see our distinguished chairman of the full committee. Mr. Chairman, we were discussing the possibility of whether we have subpena power with these food chains in regard to meat prices. Do we have subpena power?

Mr. POAGE. We have that power and frankly I would hope that the subcommittee would feel disposed to exercise it, if these chains don't come in here and testify as to exactly what they are paying and what they are charging and what the changes have been in their prices during the period of great change in the price of live animals.

Now, this committee has never exercised that subpena power since I have been chairman, and I don't like to exercise it, but I want to make it really plain that we have that power and that we will exercise it if these people don't want to come in here and tell us about it voluntarily. Because if they don't want to tell us what the prices are, why we still want to know.

I hope that the subcommittee, if I may impose upon Mr. Sisk's time, I hope that the subcommittee would see fit to use that power. Now, I see the representatives of the producers are here and I think the chain store representatives should be here to tell us just exactly what they are getting.

And I know we've all got some receipts probably that will show what we are getting back in the country. So, I would hope we could establish just exactly what the cattle are bringing and let us establish what the feed lots are getting, if anything, and let us establish what they are selling these cattle to the packers for and have the packers come, if they will, and tell us just what their margins are.

And then if these chain stores don't want to tell us, let's find out by all the means we've got for finding out.

I think we have the means of finding out, because I think it is high time that we publicize for the public just exactly what these prices are and what the margins are.

Mr. FINDLEY. Mr. Chairman?

Mr. VIGORITO. Yes, the gentleman is recognized.

Mr. FINDLEY. In light of the chairman's comment, I would like to move, if it is in order, that you, as chairman of the subcommittee, notify those who did not agree to appear voluntarily today, that we are going to use our subpena power. Let's invite them in the letter of invitation voluntarily to appear, or at least tell them we will use our subpena power, and have the intention of using that if need be, to secure their cooperation.

Mr. DENHOLM. Mr. Chairman, will the gentleman yield?

Mr. FINDLEY. Certainly.

Mr. DENHOLM. Does any member of the committee have the authority to administer an oath?

We need to know facts. We ought to know the truth. Testimony under oath would be different than testimony that is not under oath if we are to have the truth of existing circumstances.

Mr. SISK. Under the provisions of subpena power of the committee, as I interpret the rule and I believe I am correct, and would appreciate staff or counsel to make a comment, but inherently in a subpena of course is an oath administered by the subcommittee chairman and it is subject to the same requirements of perjury and the possibility of contempt of Congress as is in court.

Now, I would like to have counsel comment.

Mr. WEST. Well, I would like to verify that, Mr. Sisk. I can do so in the next 10 minutes and report back to you.

Mr. DENHOLM. If it is appropriate, Mr. Chairman, I will amend the motion for the issuance of a subpena to include instructions to testify under oath.

Mr. POAGE. Well, the subpena will carry that.

Mr. DENHOLM. Yes. However, the witnesses should know it in advance.

Mr. VIGORITO. If no objection, then the Chair will direct correspondence to the food chains mentioned, with the understanding that they will be invited voluntarily and, if they do not comply voluntarily, they will be subpenaed. And if they are subpenaed, they will have to appear under oath, and as a consequence their evidence, if knowingly inaccurate will be considered perjury in violation of that oath.

All right. We will continue now with our first witness, Mr. J. Dawson Ahalt, Staff Economist Group, U.S. Department of Agriculture.

STATEMENT OF J. DAWSON AHALT, STAFF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY LARRY DUEWER, AGRICULTURE ECONOMIST, MEAT, ANIMAL PROGRAM AREA, ECONOMIC RESEARCH SERVICE

Mr. AHALT. Thank you, Mr. Chairman.

I would like to have Mr. Larry Duewer, from the Economic Research Service accompany me, Mr. Chairman.

Retail beef prices declined from the record levels reported in February this year, following the general drop in live and wholesale markets. Prices declined in response to steadily rising beef supplies. The weekly rate of beef production under Federal inspection in June was almost 15 percent larger than in February. During the summer, retail prices rose again as the cattle market strengthened in response to smaller grain-fed beef supplies. Although beef prices at retail have advanced from a yearly low of $1.32 in June to $1.43 in the first 2 weeks in September, prices are still below year-earlier levels as they have been since May. Fed cattle prices have dropped from an August average of about $47 per 100 pounds live weight to $40 in recent weeks. Large marketings of cows and other steers and heifers with limited grain feeding background in the summer offered stiff competition to grain fed beef.

Retail prices this fall are expected to decline from the $1.43 per pound September estimate, in response to lower live and wholesale prices and seasonally larger pork production. In the first half of 1975, prices may advance again as beef supplies decline seasonally and pork and broiler output drop below year-earlier levels. However, winter slaughter could be boosted above anticipated levels if severe weather forces excess marketings of cattle.

All of the increase in beef production this year has been from nonfed steers and heifers and cows as fed cattle marketings were down about 5 percent from a year earlier through the first 9 months. The unusually low level of placements on feed this year—down 35 percent during January–September—has resulted in a large buildup of feeder cattle. Although larger marketings of these nonfed steers and heifers for slaughter occurred in the winter and spring, their number increased dramatically in the summer. Consequently, slaughter of these cattle will be the largest in several years. Continued large marketings of this class of steers and heifers and cows will continue this fall and at least through the first half of next year.

On the pork side, retail prices have followed a pattern this year, similar to that of beef. That is, prices declined 15 percent from February to May, as pork supplies increased. Although summer pork production was about 15 percent above last year, pork supplies dropped seasonally from spring to summer, and retail pork prices advanced, following the trend of live hog prices. However, retail pork prices in September were still about 6 percent below February levels, the high month of the year, and 13 percent under last year at this time.

Retail pork prices will decline this fall as pork output rises seasonally. However, high feed grain prices and low profits in 1974 have discouraged hog producers from raising hogs, and pork supplies in January–June next year will be down sharply from this year. Consequently, pork prices will rise through most of the first half next year. However, the price advance of pork will be tempered to some degree by large supplies of beef.

There has been much concern over the relationship between what farmers get for their live animals and what consumers pay for beef. This concern is shared by the Department. Let's look at some of the facts concerning the farm-to-retail price spread on beef.

First, let me define what we mean by price spread.

We treat spreads as the difference between a monthly average composite price per pound of retail cuts and the farm value of the equivalent quantity of live animals less the value of byproducts.

Thus, the farm-retail spread is a measure of the charges for all marketings, processing, and distribution activities that occur between the "farm gate" and consumer purchase of the product at retail.

Price spreads—marketing margins—for meat, then, include charges for such activities as transporting animals to packing plans, slaughtering animals and processing products, packaging of product and shipping meat and products in major consuming areas. Each activity involves expenditures for labor, energy, capital, taxes, and depreciation of fixed assets.

All such costs, plus profits earned by firms, are included in the price spread or margin reported by USDA. The price spread gives no indication of whether the industry is efficient or inefficient, or whether costs for marketing, processing, and distribution are reasonable or excessive.

Price spreads for beef and pork have widened substantially in the past 10 years, particularly since 1968. Between 1963 and 1968 the spread for beef was about 30 cents per pound. It increased to 45 cents per pound in 1973—a jump of about 50 percent.

Margins for pork have followed similar patterns but with greater year-to-year changes—averaging near 30 cents per pound in 1963 to 1969, then widening to 38 cents per pound in 1973—an increase of about one-third.

Several factors contributed to the trend toward wider margins for red meat. Most important have been the sharp increases in costs of labor and other services and supplies required by marketing firms. Increased marketing margins for meat are the result of the strong inflationary pressures in the American economy since 1969. Also, the meat marketing system, like other parts of the food system, now provides additional services in the form of further processing which requires relatively large inputs of labor. Costs of providing such services plus those for advertising, promotion and convenience of store location, exert pressure for widening margins for many foods, including red meat.

Throughout much of the period since 1960, profits as a percentage of stockholder equity ranged between 10 and 13 percent for 15 major retail food chains as a group. As a percentage of sales, profits ranged between 1.1 and 1.3 through most of the period. Profit rates by both measures fell substantially in 1972 and 1973 and they were well below profit rates for other industry groups throughout the period 1960 to 1973. Only recently have retailers' profits risen to their levels of the 1960's.

Meat packer profits were more unstable but ran somewhat higher relative to sales than those of food retailers.

Overall, profits in meat packing and food retailing have not been excessive relative to all manufacturing industries in the country.

Meat price spreads exploded late in the third quarter of 1973. They rose to record high levels in late winter and early spring of 1974 while market prices for cattle and hogs dropped sharply and losses mounted for livestock feeders. Both livestock producers and meat consumers vented their frustrations against what they considered to be an unresponsive, profiteering, meat marketing system.

To some extent the surge in spreads in late 1973 and early 1974 was caused by the same set of factors that widened margins since 1968. Inflation was at very high rates in the fall of 1973 and the first half of 1974. Between the third quarter of 1973 and the second quarter of 1974, prices of some marketing inputs rose sharply—energy, 48 percent; containers and packaging, 18 percent; and services, 7 percent. In the first quarter of 1974, hourly earnings of food marketing employees averaged $3.85, a 7-percent increase relative to the first quarter of 1973.

But inflation of prices of inputs used by marketing firms cannot alone explain the surge in meat margins.

The imposition of price ceilings on meat in March 1973 created serious disruptions in the normal flow of livestock. Live animal prices increased during the summer of 1973 when retail meat prices were frozen, which pinched marketing margins in the third quarter. When ceilings were removed in late summer of 1973, pent-up cost increases passed through the system to consumers. Marketing firms attempted to recoup their losses or improve upon relatively low earnings experienced earlier in the year.

In the first three quarters of 1973 profits of 15 retail food chains ranged between 0.4 and 0.7 percent of sales—well below their historical levels of 1.1 to 1.3 percent. But in the fourth quarter of 1973 retailers' profit rates rose to 1 percent of sales. Data for these 15 retail chains indicate that profit rates averaged 0.9 percent of sales in the first two quarters of 1974.

Meatpacker profits also rose in the fourth quarter of 1973 to 1.5 percent from about 1 percent of sales in the first three quarters of that year. Preliminary data suggest packers' profits ranged between 1.1 and 1.4 percent in the first two quarters of 1974.

Although packers and retailers improved their profit positions in late 1973 and early 1974 relative to their earlier positions in 1973, those higher rates were not out of line with longer-term rates in the industry.

Since many firms have multiple product lines or departments, a firm's profit rates do not necessarily indicate profit rates of individual product lines or departments. In any given short period of time, one department may incur losses while others return profits. Pricing policies of retail food chains focus upon returning profits to the firm or store as a whole and not necessarily upon profits in each department at all times.

Data on the profit rates for departments of retail food stores are not available. However, the changes in meat price spreads and general marketing costs suggest that the profits for retailing meat increased sharply during the first half of 1974. Based on this circumstantial evidence, it appears that the recent increase in meat price spreads was caused partially by food retailers changing their pricing policies to increase profits in their meat departments. On the other hand, higher profits for meat may have been offset partially by lower profits in other product lines and profits for the entire firm may have risen less steeply than in the meat department.

Based upon the preliminary data now available, it appears that the major factors contributing to wide spreads were inflation coupled with seriously distorted market relationships.

The task force Secretary Butz appointed June 28, with Don Paarlberg as chairman, to examine farm-retail price spreads for red meat reported August 26. Their report include recommendations to improve the performance of the meat marketing industry, some of which have already been acted upon. For example, on September 10, proposed changes in beef grade standards were published. Public comments will be accepted through December 10. USDA is now releasing preliminary weekly estimates of farm retail price spreads for beef and pork. The National Livestock and Meat Board is promoting acceptance of frozen meat by consumers. USDA price spreads have been updated to reflect recent increases in transportation costs and other examinations of price spreads procedures are in progress.

Other recommendations by the task force included such things as, first, a further shift in boxed beef and central meat cutting, second, improved transportation scheduling, third, improved labor-management negotiations to increase productivity, fourth, encourage retailers, wholesalers, and packers to reflect more quickly price changes that occur elsewhere in the system, fifth, continue and improve research on cost saving technology and productivity increases, sixth, work to remove labor-management obstacles, and seventh, to improve available information on meat prices and spreads.

In summary, price spreads are wider than they used to be, with most of the increase attributable to inflation. The USDA is working hard to implement changes to improve its services to the industry and to encourage acceptance and use by the industry of improved productivity measures.

Table 1--Beef, Choice: Retail price, carcass value, farm value, farm-retail spread, and farmers' share of retail price, 1972-74 by months

Date	Retail price per pound 1/	Carcass value 2/	Net farm value 3/	Farm-retail spread			Farmer's share
				Total	Carcass-retail	Farm carcass	
	Cents						Percent
1972							
Jan.	111.5	82.5	74.1	37.4	29.0	8.4	66
Feb.	115.8	82.6	75.0	40.8	33.2	7.6	65
Mar.	115.8	79.0	71.9	43.9	36.8	7.1	62
Apr.	112.0	77.3	70.2	41.8	34.7	7.1	63
May	111.4	81.1	73.0	38.4	30.3	8.1	66
June	113.5	85.1	77.5	36.0	28.4	7.6	68
July	117.3	84.3	77.5	39.8	33.0	6.8	66
Aug.	115.8	78.5	71.0	44.8	37.3	7.5	61
Sept.	112.9	76.7	69.6	43.3	36.2	7.1	62
Oct.	112.8	76.4	69.1	43.7	36.4	7.3	61
Nov.	112.3	74.1	66.6	45.7	38.2	7.5	59
Dec.	114.9	82.6	74.6	40.0	32.0	8.0	65
Average	113.8	80.0	72.5	41.3	33.8	7.5	64
1973							
Jan.	122.1	90.3	82.4	39.7	31.8	7.9	67
Feb.	130.3	95.7	87.5	42.8	34.6	8.2	67
Mar.	135.3	99.1	92.3	43.0	36.2	6.8	68
Apr.	136.0	99.7	91.3	44.7	36.3	8.4	67
May	136.0	99.0	92.7	43.3	37.0	6.3	68
June	135.5	101.4	94.6	40.9	34.1	6.8	70
July	136.3	102.5	96.7	39.6	33.8	5.8	71
Aug.	144.2	4/111.8	108.5	35.7	4/32.4	4/3.3	75
Sept.	144.9	101.8	91.9	53.0	43.1	9.9	63
Oct.	136.0	92.6	83.2	52.8	43.4	9.4	61
Nov.	134.9	90.1	80.0	54.9	44.8	10.1	59
Dec.	134.4	93.4	79.6	54.8	41.0	13.8	59
Average	135.5	98.1	90.1	45.4	37.4	8.0	66
1974							
Jan.	143.0	106.7	96.9	46.1	36.3	9.8	68
Feb.	150.0	108.2	94.5	55.5	41.8	13.7	63
Mar.	142.2	95.9	86.0	56.2	46.3	9.9	60
Apr.	136.4	95.0	84.2	52.2	41.4	10.8	62
May	135.0	95.5	83.2	51.8	39.5	12.3	62
June	132.2	90.1	77.7	54.5	42.1	12.4	59
July	137.9	103.6	90.9	47.0	34.3	12.7	66
Aug.	143.4	106.9	97.7	45.7	36.5	9.2	68
Sept.							

1/ Weighted average price of retail cuts from Choice beef carcass. 2/Wholesale value of 1.41 pounds--the quantity of Choice carcass equivalent to 1 pound of retail cuts. 3/Payment to farmer for 2.28 pounds Choice steer minus allowance for value of by-products. 4/Estimated.

Table 1 Continued
Beef Choice: Retail price, carcass value, farm value, farm-retail spread, and farmer's share of retail price, 1970-71 by months.

Date	Retail price per pound 1/	Carcass value 2/	Net farm value 3/	Farm-retail spread: Total	Farm-retail spread: Carcass-retail	Farm-retail spread: Farm-carcass	Farmer's share
	Cents						Percent
1970							
Jan.	97.5	67.5	58.8	38.7	30.0	8.7	60
Feb.	97.3	67.2	60.8	36.5	30.1	6.4	62
Mar.	99.4	71.0	64.7	34.7	28.4	6.3	65
Apr.	99.9	70.3	64.1	35.8	29.6	6.2	64
May	99.4	68.1	62.0	37.4	31.3	6.1	62
June	98.5	69.5	63.8	34.7	29.0	5.7	65
July	100.7	72.4	65.4	35.3	28.3	7.0	65
Aug.	100.4	70.3	63.1	37.3	30.1	7.2	63
Sept.	98.7	68.3	61.7	37.0	30.4	6.6	62
Oct.	97.9	66.3	60.2	37.7	31.6	6.1	61
Nov.	97.6	64.9	57.3	40.3	32.7	7.6	59
Dec.	96.5	63.4	56.3	40.2	33.1	7.1	58
Average	98.6	68.3	61.6	37.0	30.3	6.7	62
1971							
Jan.	97.2	69.8	60.4	36.8	27.4	9.4	62
Feb.	101.3	74.6	67.5	33.8	26.7	7.1	67
Mar.	102.2	74.0	66.8	35.4	28.2	7.2	65
Apr.	104.0	75.6	67.9	36.1	28.4	7.7	65
May	104.8	77.5	68.7	36.1	27.3	8.8	66
June	105.7	75.7	67.9	37.8	30.0	7.8	64
July	104.7	75.4	67.9	36.8	29.3	7.5	65
Aug.	105.7	77.3	69.6	36.1	28.4	7.7	66
Sept.	105.9	75.7	68.2	37.7	30.2	7.5	64
Oct.	105.1	74.2	67.6	37.5	30.9	6.6	64
Nov.	106.3	77.6	70.2	36.1	28.7	7.4	66
Dec.	108.5	80.3	71.9	36.6	28.2	8.4	66
Average	104.3	75.6	67.9	36.4	28.7	7.7	65

1/ Weighted average price of retail cuts from Choice beef carcass. 2/ Wholesale value of 1.41 pounds--the quantity of Choice carcass equivalent to 1 pound of retail cuts. 3/ Payment to farmer for 2.28 pounds Choice steer minus allowance for value of byproducts.

TABLE 2—Beef, Choice: Carcass value, farm value, and farm retail spread as percent of retail price, 1972–74 by months, continued

Date	Retail price per pound 1/	Carcass value 2/	Net farm value 3/	Farm-retail spread: Total	Farm-retail spread: Carcass-retail	Farm-retail spread: Farm-carcass
	-- Cents --	------	------	Percent	------	------
1970						
Jan.	97.5	69.2	60	39.7	30.8	8.9
Feb.	97.3	69.1	62	37.5	30.9	6.6
Mar.	99.4	71.4	65	34.9	28.6	6.3
Apr.	99.9	70.4	64	35.8	29.6	6.2
May	99.4	68.5	62	37.6	31.5	6.1
June	98.5	70.6	65	35.?	29.4	5.8
July	100.7	71.9	65	35.1	28.1	7.0
Aug.	100.4	70.0	63	37.2	30.0	7.2
Sept.	98.7	69.2	62	37.5	30.8	6.7
Oct.	97.9	67.7	61	38.5	32.3	6.2
Nov.	97.6	66.5	59	41.3	33.5	7.8
Dec.	96.5	65.7	58	41.7	34.3	7.4
Average	98.6	69.3	62	37.5	30.7	6.8
1971						
Jan.	97.2	71.8	62	37.9	28.2	9.7
Feb.	101.3	73.6	67	33.4	26.4	7.0
Mar.	102.2	72.4	65	34.6	27.6	7.0
Apr.	104.0	72.7	65	34.7	27.3	7.4
May	104.8	74.0	66	34.4	26.0	8.4
June	105.7	71.6	64	35.8	28.4	7.4
July	104.7	72.0	65	35.2	28.0	7.2
Aug.	105.7	73.1	66	34.2	26.9	7.3
Sept.	105.9	71.5	64	35.6	28.5	7.1
Oct.	105.1	70.6	64	35.7	29.4	6.3
Nov.	106.3	73.0	66	34.0	27.0	7.0
Dec.	108.5	74.0	66	33.7	26.0	7.7
Average	104.3	72.5	65	34.9	27.5	7.4

1/ Weighted average price of retail cuts from Choice beef carcass. 2/ Wholesale value of 1.41 pounds--the quantity of Choice carcass equivalent to 1 pound of retail cuts. 3/ Payment to farmer for 2.28 pounds Choice steer minus allowance for value of byproducts.

Table 2--Beef, Choice: Carcass value, farm value, and farm-retail spread as percent of retail price, 1972-74 by months

Date	Retail price per pound 1/	Carcass value 2/	Net farm value 3/	Farm-retail spread: Total	Farm-retail spread: Carcass-retail	Farm-retail spread: Farm carcass
	Cents	Percent				
1972						
Jan.	111.5	74.0	66	33.5	26.0	7.5
Feb.	115.8	71.3	65	35.3	28.7	6.5
Mar.	115.8	68.2	62	37.9	31.8	6.1
Apr.	112.0	69.0	63	37.3	31.0	6.3
May	111.4	72.8	66	34.5	27.2	7.3
June	113.5	75.0	68	31.7	25.0	6.7
July	117.3	71.9	66	33.9	28.1	5.8
Aug.	115.8	67.8	61	38.7	32.2	6.5
Sept.	112.9	67.9	62	38.4	32.1	6.3
Oct.	112.8	67.7	61	38.7	32.2	6.5
Nov.	112.3	66.0	59	40.7	34.0	6.7
Dec.	114.9	71.9	65	34.8	28.8	7.0
Average	113.8	70.3	64	36.3	29.7	6.6
1973						
Jan.	122.1	74.0	67	32.5	26.0	6.5
Feb.	130.3	73.4	67	32.8	26.5	6.3
Mar.	135.3	73.2	68	31.8	26.8	5.0
Apr.	136.0	73.3	67	32.9	26.7	6.2
May	136.0	72.8	68	31.8	27.2	4.6
June	135.5	74.8	70	30.2	25.2	5.0
July	136.3	75.2	71	29.1	24.8	4.3
Aug.	144.2	4/77.5	75	24.8	4/22.5	4/2.3
Sept.	144.9	70.3	63	36.6	29.8	6.8
Oct.	136.0	68.1	61	38.8	31.9	6.9
Nov.	134.9	66.8	59	40.7	33.2	7.5
Dec.	134.4	69.5	59	40.8	30.5	10.3
Average	135.5	72.4	66	33.5	27.6	5.9
1974						
Jan.	143.0	74.6	68	32.2	25.4	6.8
Feb.	150.0	72.1	64	37.0	27.9	9.1
Mar.	142.2	67.4	60	39.5	32.6	7.0
Apr.	136.4	69.6	62	38.3	30.3	8.0
May	135.0	70.7	62	38.4	29.3	9.1
June	132.2	68.2	59	41.2	31.8	9.4
July	137.9	75.1	66	34.1	24.9	9.4
Aug.	143.4	74.5	68	31.9	25.4	6.5

1/Weighted average price of retail cuts from Choice beef carcass. 2/Wholesale value of 1.41 pounds--the quantity of Choice carcass equivalent to 1 pounds of retail cuts. 3/Payments to farmer for 2.28 pounds Choice steer minus allowance for value of byproducts. 4/Estimated. 5/ Preliminary.

Table 3--Distribution of consumer expenditures among the four sectors of the beef industry

Quarter & Year	Cow-Calf Producer	Feedlot Operators	Packers 1/	*Transportation, Wholesaling* Retail & Institutional
	------------	------------	Percent	------------
II 1971	40	27	7	26
III 1971	45	22	6	27
IV 1971	43	24	6	27
I 1972	41	26	6	27
II 1972	43	25	6	26
III 1972	45	21	5	29
IV 1972	46	19	6	29
I 1973	43	28	5	24
II 1973	43	28	5	24
III 1973	48	25	2	25
IV 1973	52	11	8	29
I 1974	49	17	7	27
II 1974	49	18	9	24
III 1974	45	27	7	21

1/ Including dressed carcass beef and by-product value.

Source: Calculated from data furnished by Office of Food, Cost-of-Living Council.

Table 4--Value Added by the Four Sectors of the Beef Industry, Second Quarter 1971 to Preliminary First Quarter 1974

Quarter & Year	Cow-Calf Producer	Feedlot Operators	Packers 1/	Retail & Institutional	Total
			Billion $		
II 1971	1.34	0.90	0.23	0.86	3.33
III 1971	1.52	0.74	0.21	0.89	3.36
IV 1971	1.44	0.82	0.20	0.93	3.39
I 1972	1.54	0.97	0.22	1.02	3.75
II 1972	1.68	0.96	0.23	1.00	3.87
III 1972	1.79	0.83	0.21	1.13	3.96
IV 1972	1.85	0.78	0.23	1.16	4.02
I 1973	1.92	1.22	0.23	1.09	4.46
II 1973	1.91	1.22	0.20	1.07	4.40
III 1973	2.09	1.08	0.07	1.11	4.35
IV 1973	2.43	0.50	0.38	1.38	4.69
I 1974	2.29	0.82	0.34	1.26	4.71
II 1974	2.02	0.73	0.35	0.99	4.09
Est. III	1.76	1.04	0.28	0.81	3.89

1/ Including by-product value.

Source: Prepared by Office of Food, Cost-of-Living Council, based on USDA data.

Table 5 -- Pork: Retail price, wholesale value, farm value, farm-retail spread, and farmer's share, 1971-74 by months, continued

Date	Retail price per pound 1/	Wholesale value 2/	Net farm value 3/	Farm-retail spread: Total	Farm-retail spread: Wholesale-retail	Farm-retail spread: Farm-wholesale	Farmer's share
	Cents						Percent
1970							
Jan.	82.1	65.9	48.7	33.4	16.2	17.2	59
Feb.	81.8	65.2	50.0	31.8	16.6	15.2	61
Mar.	81.4	63.0	45.7	35.7	18.4	17.3	56
Apr.	79.9	60.3	42.0	37.9	19.6	18.3	55
May	80.0	60.3	41.4	38.6	19.7	18.9	52
June	80.0	61.3	42.3	37.7	18.7	19.0	53
July	80.6	61.8	44.6	36.0	18.8	17.2	55
Aug.	79.7	57.2	39.0	40.7	22.5	18.2	49
Sept.	76.7	55.1	35.5	41.2	21.6	19.6	46
Oct.	74.6	52.5	30.8	43.8	22.1	21.7	41
Nov.	70.8	50.6	27.1	43.7	20.2	23.5	38
Dec.	68.4	51.3	27.3	41.1	17.1	24.0	40
Average	78.0	58.7	39.5	38.5	19.3	19.2	51
1971							
Jan.	68.4	48.7	28.2	40.2	19.7	20.5	41
Feb.	69.4	51.8	33.8	35.6	17.6	18.0	49
Mar.	69.9	50.1	29.6	40.3	19.8	20.5	42
Apr.	68.7	47.9	27.9	40.8	20.8	20.0	41
May	68.2	50.3	30.2	38.0	17.9	20.1	44
June	69.6	51.5	32.1	37.5	18.1	19.4	46
July	71.4	53.7	34.7	36.7	17.7	19.0	49
Aug.	71.6	52.1	33.2	38.4	19.5	18.9	46
Sept.	71.0	52.5	33.0	38.0	18.5	19.5	46
Oct.	71.3	55.7	34.7	36.6	15.6	21.0	49
Nov.	71.4	54.4	34.0	37.4	17.0	20.4	48
Dec.	72.9	56.0	37.1	35.8	16.9	18.9	51
Average	70.3	52.1	32.3	38.0	18.2	19.8	46

Table 5.--Pork: Retail price, wholesale calue, farm value, farm-retail spread, and farmer's share, 1971-74 by months

Date	Retail price per pound 1/	Wholesale value 2/	Net farm value 3/	Farm-retail spread: Total	Farm-retail spread: Wholesale-retail	Farm-retail spread: Farm wholesale	Farmer's share
	Cents						Percent
1972							
Jan.	76.3	60.1	44.2	32.1	16.2	15.9	58
Feb.	81.3	63.1	45.5	35.8	18.2	17.6	56
Mar.	79.4	60.7	41.8	37.6	18.7	18.9	53
Apr.	78.2	58.3	40.4	37.8	19.9	17.9	52
May	79.4	61.1	45.0	34.4	18.3	16.1	57
June	82.0	63.5	47.6	34.4	18.5	15.9	58
July	85.6	64.2	51.1	34.5	21.4	13.1	60
Aug.	86.0	67.5	51.5	34.5	18.5	16.0	60
Sept.	86.6	69.7	52.2	34.4	16.9	17.5	60
Oct.	87.5	70.4	50.1	37.4	17.1	20.3	57
Nov.	87.2	69.6	49.6	37.6	17.6	20.0	57
Dec.	88.5	74.5	55.4	33.1	14.0	19.1	63
Average	83.2	65.2	47.9	35.3	18.0	17.3	58
1973							
Jan.	94.1	76.3	58.5	35.6	17.8	17.8	62
Feb.	97.1	80.1	64.8	32.3	17.0	15.3	67
Mar.	103.0	83.2	67.9	35.1	19.8	15.3	66
Apr.	102.7	79.1	63.0	39.7	23.6	16.1	61
May	102.4	78.3	64.0	38.4	24.1	14.3	62
June	104.1	80.1	67.8	36.3	24.0	12.3	65
July	107.5	95.4	82.5	25.0	12.1	12.9	77
Aug.	131.5	112.8	99.3	32.2	18.7	13.5	76
Sept.	126.3	96 3	76.9	49.4	30.0	19.4	61
Oct.	117.1	87.0	73.3	43.8	30.1	13.7	63
Nov.	115.4	87.8	71.9	43.5	27.6	15.9	62
Dec.	115.8	88.3	69.8	46.0	27.5	18.5	60
Average	109.8	87.1	71.8	38.0	22.7	15.3	65
1974							
Jan.	116.7	85.4	70.8	45.9	31.3	14.6	61
Feb.	117.2	85.4	68.3	48.9	31.8	17.1	58
Mar.	111.8	74.7	59.8	52.0	37.1	14.9	53
Apr.	104.7	70.5	52.1	52.6	34.2	18.4	50
May	99.4	64.5	44.5	54.9	34.9	20.0	45
June	93.7	64.1	47.1	46.6	29.6	17.0	50
July	103.7	77.0	62.2	41.5	26.7	14.8	60
Aug.	108.7	78.5	64.5	44.2	30.2	14.0	59

1/Weighted average price of retail pork cuts. 2/Wholesale value of 1.07 pounds--the quantity of wholesale cut equivalent to 1 pound of retail cuts. 3/Payment to farmers for 1.97 pounds live hog minus allowance for value of byproducts.

Table 6 -- Pork: Retail price, wholesale value, farm value, farm-retail spread, and farm's share, 1971-74 by months

Date	Retail price per pound 1/	Wholesale value 2/	Net farm value 3/	Farm-retail spread: Total	Farm-retail spread: Wholesale-retail	Farm-retail spread: Farm-wholesale
	--Cents--			------ Percent ------		
1970						
Jan.	82.1	80.2	59	40.7	19.7	21.0
Feb.	81.8	79.7	61	38.9	20.3	18.6
Mar.	81.4	77.4	56	43.9	22.6	21.3
Apr.	79.9	75.5	55	47.4	24.5	22.9
May	80.0	75.4	52	48.2	24.6	23.6
June	80.0	76.6	53	47.1	23.4	23.7
July	80.6	76.7	55	44.7	23.4	21.3
Aug.	79.7	71.8	49	51.0	28.2	22.8
Sept.	76.7	71.8	46	53.7	28.2	25.5
Oct.	74.6	70.4	41	58.7	29.6	29.1
Nov.	70.8	71.5	38	61.7	28.5	33.2
Dec.	68.4	75.0	40	60.1	25.0	35.1
Average	78.0	75.3	51	49.4	24.8	24.6
1971						
Jan.	68.4	71.2	41	58.8	28.8	30.0
Feb.	69.4	74.6	49	51.3	25.4	25.9
Mar.	69.9	71.7	42	57.6	28.3	29.3
Apr.	68.7	69.7	41	59.4	30.3	29.1
May	68.2	73.8	44	55.7	26.2	29.5
June	69.6	74.0	46	53.9	26.0	27.9
July	71.4	75.2	49	51.4	24.8	26.6
Aug.	71.6	72.8	46	53.6	27.2	26.4
Sept.	71.0	73.9	46	53.5	26.0	27.5
Oct.	71.3	78.1	49	51.3	21.9	29.4
Nov.	71.4	76.2	48	52.4	23.8	28.6
Dec.	72.9	76.8	51	49.1	23.2	25.9
Average	70.3	74.1	46	54.1	25.9	28.2

Table 6.--Pork: Retail price, wholesale value, farm value, farm-retail spread, and farmer's share, 1971-74 by months, continued

Date	Retail price per pound 1/	Wholesale value 2/	Net farm value 3/	Farm-retail spread: Total	Farm-retail spread: Wholesale-retail	Farm-retail spread: Farm-wholesale
	--Cents--			Percent		
1972						
Jan.	76.3	78.8	58	42.1	21.2	20.9
Feb.	81.3	77.6	56	44.0	22.4	21.6
Mar.	79.4	76.4	53	47.4	23.6	23.8
Apr.	78.2	74.6	52	48.3	25.4	22.9
May	79.4	77.0	57	43.3	23.0	20.3
June	82.0	77.4	58	42.0	22.6	19.4
July	85.6	75.0	60	40.3	25.0	15.3
Aug.	86.0	78.5	60	40.1	21.5	18.6
Sept.	86.6	80.5	60	39.7	19.5	20.2
Oct.	87.5	80.5	57	42.7	19.5	23.2
Nov.	87.2	79.8	57	43.1	20.2	22.9
Dec.	88.5	84.2	63	37.4	15.8	21.6
Average	83.2	78.4	58	42.4	21.6	20.8
1973						
Jan.	94.1	81.1	62	37.8	18.9	18.9
Feb.	97.1	82.5	67	33.3	17.5	15.8
Mar.	103.0	80.8	66	34.1	19.2	14.9
Apr.	102.7	77.0	61	38.7	23.0	15.7
May	102.4	76.5	62	37.5	23.5	14.0
June	104.1	76.9	65	34.9	23.1	11.8
July	107.5	88.7	77	23.3	11.3	12.0
Aug.	131.5	85.8	76	24.5	14.2	10.3
Sept.	126.3	76.2	61	39.1	23.8	15.3
Oct.	117.1	74.3	63	37.4	25.7	11.7
Nov.	115.4	76.1	62	37.7	23.9	13.8
Dec.	115.8	76.2	60	39.7	23.7	16.0
Average	109.8	79.3	65	34.6	20.7	13.9
1974						
Jan.	116.7	73.2	61	39.3	26.8	12.5
Feb.	117.2	72.9	58	41.7	27.1	14.6
Mar.	111.8	66.8	53	46.5	33.2	13.3
Apr.	104.7	67.3	50	50.0	32.7	17.3
May	99.4	64.8	45	55.0	35.1	19.9
June	93.7	68.4	50	49.7	31.6	18.1
July	103.7	74.2	60	40.0	25.8	14.2
Aug.	108.7	72.2	59	41.0	27.8	13.2

1/Weighted average price of retail pork cuts. 2/Wholesale value of 1.07 pounds--the quantity of wholesale cut equivalent to 1 pound of retail cuts. 3/Payment to farmer for 1.97 pounds live hog minus allowance for value of byproducts.

Table 7. Beef supplies and prices

	Estimated commercial cattle slaughter						Commercial beef production	Per capita beef consumption	Price Choice steers at Omaha
	Fed steers and heifers	Non-fed steers and heifers	Total steers and heifers	Cows	Bulls and stags	Total			
			1,000 head				Mil. lbs.	Total lbs.	$/cwt.
1971 I....	6,380	572	6,952	1,500	135	8,587	5,300	27.7	31.05
II...	6,480	687	7,167	1,586	164	8,917	5,445	28.1	32.57
III..	6,820	666	7,486	1,614	179	9,279	5,574	29.3	32.77
IV...	6,380	592	6,972	1,675	155	8,802	5,378	27.9	33.44
Year.....	26,060	2,517	28,577	6,375	633	35,585	21,697	113.0	32.42
1972 I....	6,620	412	7,032	1,518	148	8,698	5,370	28.1	35.69
II...	6,930	452	7,382	1,474	166	9,022	5,566	28.9	36.02
III..	7,140	223	7,363	1,472	180	9,015	5,559	29.3	36.24
IV...	6,970	395	7,365	1,528	151	9,044	5,723	29.7	35.06
Year.....	27,660	1,482	29,142	5,992	645	35,779	22,218	116.0	35.83
1973 I....	6,770	146	6,916	1,590	156	8,662	5,393	28.0	43.17
II...	6,470	86	6,556	1,434	165	8,155	5,049	26.2	46.00
III..	6,080	204	6,284	1,533	180	7,997	4,997	26.8	49.04
IV...	6,600	407	7,007	1,691	175	8,873	5,619	28.6	40.19
Year.....	25,920	843	26,763	6,248	676	33,687	21,088	109.6	43.89
1974 I....	6,160	492	6,652	1,689	162	8,503	5,429	28.0	45.39
II...	6,450	794	7,244	1,390	179	8,813	5,637	28.8	39.52
1/ III..	5,700	1,580	7.280	1,830	230	9,340	5.800	30.0	44-21

1/ Preliminary.

Mr. VIGORITO. Thank you, Mr. Ahalt.

Mr. Chairman, Mr. Poage, do you have any questions?

Mr. POAGE. Yes; I might inquire just how you got these figures. Now you list in August 1974 the net form value at 97 cents. Now that I presume you translate into about just a little less than double the actual price of the live animal?

Mr. AHALT. Yes, sir. In other words, Mr. Chairman, it takes a little over 2 pounds of live weight animal——

Mr. POAGE. Less than 2 pounds.

Mr. AHALT. Well, you have to take out the byproducts. If you take out the byproducts, that is right. But, we calculate 2.28 pounds of live animal is needed to end up for 1 pound of a composite choice beef cut. So that this is the farm value for that retail 1 pound——

Mr. POAGE. Yes; which would run about 47 or 48 cents?

Mr. AHALT. That is correct, the price per pound, Mr. Chairman.

Mr. POAGE. They are not getting that price down at my part of the country. I don't know anybody who is getting 48 cents for their cattle.

Mr. AHALT. Well, that was in August, Mr. Chairman.

Mr. POAGE. That was in August, yes, that is what I am talking about.

Mr. AHALT. In September, we estimate that comparable figure to be 88.9 cents. And I mentioned earlier the prices right now are under $40 per hundredweight.

Mr. POAGE. That is right.

Mr. AHALT. Yes, sir.

Mr. POAGE. That is exactly what I want to know. They are well under $40 per hundredweight?

Mr. AHALT. Yes, sir.

Mr. POAGE. That is what I wanted for the record, because I know that the actual price to the producer is substantially less than this would seem to indicate from these figures.

Mr. AHALT. Yes, sir.

Mr. POAGE. Now, you may have your present updated figures and——

Mr. AHALT. Yes, sir.

Mr. POAGE. But I just didn't want to let this pass, you see. I wonder if I might impose on this committee further, Mr. Chairman? Might I discuss with this gentleman a matter that has taken place down in my State right now.

You are probably partially familiar with the fact that on yesterday at Stephenville, Tex., they had a meeting of ranchers and dairymen and they brought in some odd-thousand calves and said they were going to kill them at 11 o'clock. They said they were going to shoot them and bury them.

The commissioner of agriculture went out there—the State commissioner—and talked to those people and talked those people into postponing the shooting for a couple of weeks, during which time the Governor promised they would try to get a message to the President and talk to representatives of those people.

The Governor did send a wire to the President, and I have a copy of that wire, asking the President to see these people. Now, what they were proposing to do was to kill the calves, the young calves, which were mainly dairy calves.

Mr. AHALT. Yes, sir.

Mr. POAGE. Those calves have no value today. Nobody wants to buy a dairy calf or nobody will or practically nobody will buy a dairy calf. Nobody wants them. They don't use them for anything, yet the public was very critical of this proposed slaughter of those calves because they felt that it somehow or another was destroying a useful resource that could be used by the public.

I wonder if you will agree with me that those calves, which have practically no sale value today and in most places you can't find anybody to give you even 50 cents for the calf, would have to be fed out to weigh something like 250 pounds before there would be a real market for them?

Now, I know that last year there was a market for small calves. I know some small calves sold at $100 last year, which won't bring anything today.

Mr. AHALT. That is right.

Mr. POAGE. But, today to find a market for Mr. Lyng's people to buy them, well, they are going to have to weigh about 250 or 300 pounds, aren't they?

Mr. AHALT. That is right, sir.

Mr. POAGE. And before any feeders could buy them, they are going to have to weigh something like that. Now, that means that that dairyman, because these are chiefly dairymen, has to put approximately 200 pounds of weight on those calves, doesn't it?

Mr. AHALT. Yes, sir.

Mr. POAGE. Now, to do it, he has got to feed them. Now, down in our country, they are feeding maize, but of course the maize and the price of corn always stays more in a ratio and gives us about the same results. Maize is bringing $67 a hundred, which is the last I know anybody paying for it, but call it $6 one hundred or $6 a pound, and your conversion ratio for those calves—and I want both the Department and Mr. McMillan, the representative of the cattle industry, to correct me if I am wrong—but the conversion ratio on the calves hardly exceeds 10 to 1, correct?

Let's call it 9. There are quite a few—well, not a few people who can put 9 pounds of feed into a calf and come out with a pound of meat, but let's call it 9, which would be extremely good, of course.

Now, that is 54 cents per pound of meat, isn't it?

Mr. AHALT. Yes, sir.

Mr. POAGE. And if you put 9 pounds of feed, then that costs you 6 cents a pound and it is 54 cents to get 1 pound of meat on that calf. Now, if you put 200 pounds of meat on that calf, why you are going to lose just 200 times as much as if you put 1.

Well, when that cow weighs 250 pounds—and I just asked staff to go and see if they can get me some of the sales sheets that I have—but those calves are selling down in my country for 23 or 24 cents, but let's call it 25 cents for the very best of them.

Now, drop your 4 cents and figure that you feed him out for 50 cents a pound, so what is your profit?

Mr. AHALT. I don't think you have one, Mr. Chairman.

Mr. POAGE. Well, it is a 25-cent-a-pound loss, that is what it is. It is a loss of 25 cents for every pound of weight that you put on that calf. And if you put 200 pounds on him, you get a $50 loss on him. Now, that is what those dairymen face when they keep those calves.

I understand that we are criticized for killing calves, but who is going to pay for keeping the calves? The calf will cost you a loss of $50 a calf to keep him by the time you can sell him. Now, what are the folks in New York or Los Angeles going to do about it? They are not going to buy the calves, but they want my people to keep the calves, to pay the bill, to keep those calves and spend the $50 apiece on them to get them up to where somebody can use them.

Well, we will give them calves. We will give them to anybody who wants them. I can get them 1,000 calves right down in my area, I know. You know, somebody can use them for charity or what have you, but you know nobody is going to take them.

Here I have some returns right here from the Laneville Auction Co. This sale took place September 24. Here is the way they were selling.

Here is an animal, well, this was an old bull. It weighed 1,690 pounds and brought 27 cents. Let's find a calf here.

Here is a 400 pound—well, are some larger calves. I will give you the larger calves at 620 pounds, which brought 24 cents. A 580-pound calf brought 24 cents. A 675-pound calf brought 22 cents, a 510-pound calf brought $22.50. A 480-pound calf brought $21.50. A 705-pound calf, or actually a yearling, brought $21.50. A 570-pound calf brought $21.50. A 555-pound calf brought $23.75. A 414-pound animal brought $27.75.

Some old yearlings brought 17 cents. Now, these are not somebody's statistics. These are the actual sales sheets from the Laneville Auction. That is what they were bringing last week.

Now, these people criticize us for killing or threatening to kill those calves. And what would they do? What would the Department have us do? What would anybody who criticizes those dairymen for getting rid of those calves, what would they do about it? Who in this room wants to volunteer to take some of those calves and feed them out? If somebody here wants to get some calves, if somebody wants a gift, if somebody wants to feed them out and lose $50 a head on them, fine. That is what these producers are faced with.

I just want to make it real clear that these are the figures on what they are actually bringing now. They are not 40 cents. They are in the low 20-cents range. That is what these cattle are bringing right last week.

And any of you who don't believe it, come on up and look at it. This gives the return from the Laneville Auction. This is the basis on which they make the settlement.

Mr. Chairman, I appreciate the opportunity to at least express my feelings, because I think this thing is too much more tragic than the media has given the public to understand. I don't believe the American people understand that these producers have to take a positive loss on everyone of those animals they try to grow, and they can see nothing but a loss out there in the future. Why should they take it? That is the whole question.

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you, Mr. Poage.

Mr. Ahalt, you mentioned that beef output increased 7 percent and there has been an even greater increase in nonfed slaughter. Does this mean that we are going to be heading for a smaller slaughter in the future, which will in turn lead to higher prices?

Mr. AHALT. No, sir, Mr. Chairman, our cattle inventories are large enough at this stage that it would take an enormous increase in slaughter in 1975 just to stabilize the size of our cattle herd.

In other words, in 1975 we could have, let us say, a 10-percent increase in slaughter and still have a growth in our cow herd for next year.

In other words, our cattle herd has been increasing. It has been growing in recent years and it is at such a level at this stage that it can continue to expand even though we increase slaughter. Slaughter has increased substantially this year. It has come in a different fashion, though. Fewer animals are coming through the traditional feed lots. So that means we are not running out of a beef herd, and the ability to produce in this country.

I think the one thing that we all feared this summer was the impact of the drought, particularly in the Southwest and the High Plains area and whether or not that might not set off a heavy liquidation if the grass deteriorated to the point where cattlemen and ranchers would have been unable to carry their cows and calves. Many of them are carrying two calf crops with one cow. They would have been in a position where they would not have been able to carry those animals and then we could have had slaughter rates even higher than I am suggesting are likely for this next year.

Mr. DENHOLM. Mr. Chairman, will you yield to me on that issue?

Mr. VIGORITO. Yes.

Mr. DENHOLM. Are the findings and the conclusions that the witness has explained based upon tonnage or numbers?

Mr. AHALT. These were number that I spoke of.

Mr. DENHOLM. I suggest that you should reevaluate those statistics. I think it is an economical loss for this country to kill calves and butcher and slaughter half grown animals. The tonnage is really what reflects in the long run the supply of available food.

You know, that the consumers depend on pounds for the satisfaction of their needs and the demand factor of the market.

Mr. AHALT. Well, the 7-percent increase I mentioned this year is in pounds. In other words, we have had a 7-percent increase in beef poundage produced in 1974.

And then when I spoke about the beef herd in response to the Chairman's question, I was saying that we could have increase in numbers of 10 percent next year, which would not reduce the cow herd.

Now, I would suspect that next year the average weights will be less than they were in 1974. Therefore, a 10-percent increase in numbers at lighter weights, as you are suggesting, would be a smaller increase in poundage, in tonnage.

Mr. DENHOLM. Well, do you agree that the consumers rely upon available pounds in the market to satisfy demand?

Mr. AHALT. Absolutely.

Mr. DENHOLM. They care little or nothing about numbers involved or what size the critter was at the time of slaughter, is that correct?

Mr. AHALT. You are right.

Mr. DENHOLM. Therefor, to satisfy consumer demand, you must convert numbers to tonnage. You are referring to statistics in terms of numbers of cattle on hand and we must be mindful of available supply in pounds to satisfy future demand.

Now, massive economic errors have been made, but they have been made and we have to accept the facts where we find them.

The administration has made errors, starting with the freeze placed on cattle that accelerated a national economic phenomena in the marketing system. We can't change the fact.

We must seek possible solutions from you folks, from the witnesses within the industry and others as to what to do on a short-term basis and at the same time assure a long-term supply sufficient to satisfy consumer demand.

Mr. VIGORITO. Mr. Findley?

Mr. FINDLEY. Thank you, Mr. Chairman.

I assume that you are aware that the American National Cattlemen's Association made a 19-city survey of retail meat pricing recently? Are you aware of that?

Mr. AHALT. Yes, sir.

Mr. FINDLEY. Can you explain the irregularities of retail meat pricing in that survey?

Mr. AHALT. No, I cannot, Mr. Findley, but let me ask Mr. Duewer to speak to that question.

Mr. DUEWER. I think possibly part of it is that they were collecting prices as they were in the store and, as you know, many retailers have specials and in some cities the particular cuts they were pricing may have been on special that week and in other cities they were all on regular pricing.

There is, of course, some variation in prices between areas of the country, and I think the Bureau of Labor Statistics data for seven retail beef cuts on a monthly basis, which of course, goes into the CPI and so forth, also shows some variations between cities.

Mr. FINDLEY. Were there any irregularities in pricing that struck either of you as exceptional, that merited further examination?

Mr. DUEWER. I would say that I looked at the reports from time to time. I didn't study them to that extent because I—well, I wasn't particularly interested in trying to prove or disprove that the numbers were correct and to figure out why the variations did exist.

Mr. FINDLEY. It is my understanding that because of certain labor union requirements, cutting the meat down to consumer portions at packing plants is not possible before shipment in certain urban areas.

Have either of you examined that practice to determine the effect that tends to have to keep consumer prices high?

Mr. AHALT. Mr. Findley, we have some estimates at the Department on the amount of cost saving that can be achieved through the boxed beef kinds of arrangements. I don't have that information. We don't have that information here with us today, but I would be glad to supply it for the record.

Mr. FINDLEY. Mr. Chairman, could I ask your permission that this be included in the record at this point?

Mr. VIGORITO. If there is no objection, the statement will be submitted by Mr. Ahalt and will be included in the record at this point.

[The information referred to follows:]

Costs of Box Beefs Vs. Carcass To Retail Store

Several factors need to be considered as possible sources of cost reductions in a boxed beef system as opposed to delivery of carcasses to retail stores.

1. Transportation:

(a) Approximately 1# of fat and bone trimming out of each 6# of carcass beef would not have to be transported to retail stores.

(b) Shipping rates are slightly lower per 100 pounds for box beef than for carcasses—due to easier handling characteristics, etc.

(c) These two combined could save 1 cent or more.

2. Labor:

(a) Labor costs can be reduced as a result of at least two factors:

1. Breaking on an assembly line basis should be more efficient than in the store backroom.

2. Wage rates may differ between retail meat cutters in large consumption areas and packer employees in areas near production centers.

(b) The savings in wage rate is mainly a geographic difference, but retail meat cutters may also be in a more skilled labor category than an assembly line cutter.

3. Other Factors:

(a) Meat packaged in plastic and then in boxes shrinks less than a hanging carcass—thus a saving in loss due to shrinkage. However, at the same time this loss is offset at least partially by the cost of the film and box.

(b) Fat and bone trim can be utilized in higher valued uses when large accumulations are available—as in packing plants cutting box beef. Stores would have smaller amounts of fat and bone trim and may be concerned more with just getting rid of it than receiving a return. If this trim has more value it means the meat could be valued slightly lower.

(c) With box beef a more sanitary product can be assured throughout the system which can result in a higher quality product with longer shelf life. While it is difficult to place a dollar value on this it does have a value.

(d) Another advantage of box beef would be any refrigerated truck can be utilized—it does not have to be outfitted with rails. This may result in a value achieved in scheduling and obtaining backhauls.

(e) Through breaking the carcass at the packing plant it moves the burden of moving beef in carcass proportions away from the retail store. They can buy cuts in the proportions they can move efficiently. While the packer does have to move the entire carcass he can probably do it more efficiently since he can sell to a wider area.

4. In conclusion, several sources of decreased costs have been pointed out. However, it would be very difficult to assign a dollar value to these various factors. There may also be some ecological, grade identity, and other factors involved that would tend to add to rather than reduce costs. An estimate of a 4 to 5 cent saving per retail pound would seem to be a reasonable approximation of the decrease in total costs of box beef over carcass delivery to retail stores.

Mr. Findley. Further, gentlemen, can either of you supply for the record data concerning the expense of restrictive practices by labor unions on the movement of certain portions of meat?

Mr. Ahalt. Well, I am not sure that we would be able to quantify or supply that data. We do have some information, however, on some of these practices.

In other words, we have some of the information showing some of the institutional problems that do add to inefficiencies and problems. We would be glad to supply a list of what some of these practices are.

Mr. Findley. Mr. Chairman, could that be included in the record, also. I would appreciate it.

Mr. Vigorito. If there is no objection, it will be included in the record at this point.

[The information referred to follows:]

List Of Possible Cost Saving Practices or Changes and Measures That Have Potential For Productivity Increases

The following list presents possible areas that have been proposed to decrease costs or increase productivity. The list has not been ranked by priority nor subjected to a critical evaluation.

While there are many areas of production related activities, such as feed conversion, genetics, twinning, etc. that could increase productivity, this list begins at the farm gate when considering areas of possible improvement.

Although difficult, an attempt has been made to divide the list into four parts: retail, packing, transportation and other. Each item listed is only an identification of the item with little or no discussion of the item.

Retail:

1. Should move to fewer but larger retail store purchases and deliveries.
2. Should be efficiencies in automated checkouts with universal product code.
3. Centralized meat cutting operations are on increase and appear to provide several advantages.
4. Automated warehouse should provide efficiencies, perhaps more for other products than for meat.
5. Need to be able to use labor on a more flexible basis for different tasks.
6. Some retail stores may be too large to efficiently serve community where located.
7. More experimentation with box beef, centralized cutting, frozen meat, etc. would be done if retailer-laborers problems could be eliminated.

Packers:

1. Daily, weekly, and yearly fluctuations in volume hinders productivity and increases costs.
2. More old inefficient packing plants could be closed if the cost of closing was made a credit against taxes rather than against income.
3. A guaranteed annual wage rather than a guaranteed minimum hours per week for packing plant workers might allow packing plants to operate more efficiently.
4. A productivity board composed of labor, management, and the public might serve to overcome labor inflexibilities.
5. Packers claim there are Government Regulation (inspection) inconsistencies that could be changed to increase plant efficiencies.
6. Need to clear up local, state, and federal regulation variations.
7. The move to box beef (primals) should provide labor and transportation efficiencies.

Transportation:

1. Restrictive labor practices such as load weight limits, numbers of delivery stops allowed, exclusive rights (geographic) of some unions, and duplication of services to some retail stores cause ineffecienies.
2. Need joint distribution centers for small firms.
3. Too many trucks return empty, need more backhauls.
4. Shortages of transportation equipment, which the energy crisis has increased even more, cause delays and inefficiency.
5. Unit train usage may help.
6. Exemption of meat from regulation, as livestock now is, might improve efficiency.
7. Rail rate structure should be revised to provide an incentive for faster service.
8. A computerized U.S. rail car information system could improve car scheduling and backhauls.
9. Need to eliminate unnecessary movements of meat and livestock by better planning of what supply areas should serve what consumption areas.

Other:

1. An electronic price negotiating system for livestock marketing would reduce costs of transportation and increase efficiency in marketing.
2. There is a claim that more vertical coordination or integration in the industry would reduce variation in the flow of livestock and meat resulting in more efficient use of resources.

3. Some sources claim that single product producer cooperatives are inefficient.
4. Improvements in management at all levels in the industry would increase productivity, but easier said than done.
5. Government regulations such as fat content of hot dogs, specific package regulations for bacon etc. cause increased costs.
6. Need more individual motivation to increase productivity of workers at all levels.
7. Collective bargaining agreements sometimes restrict productivity—featherbedding, no transferring of duties among workers, etc.
8. Many firms are to small to have money for research and development. Grants may be needed.
9. Antitrust and collusion claim fears cause decreased cooperation.
10. Employee turnover is a problem.
11. All government program and policy decisions should include in their development an assessment of productivity impact.
12. Standardization of box sizes would improve handling procedures.
13. Labor difficulties need to be settled relative to box beef and primals.
14. Polyethylene bags and polyvinyl chloride films reduce shrink, extend shelf life, and need less trimming.
15. Some environment regulations reduce productivity.
16. Acceptance of frozen beef could provide handling efficiencies and extended shelf life.
17. Beef grade changes might facilitate movement through the channel, produce efficiencies, and more nearly provide the quality a majority of consumers desire.

Mr. Findley. Gentlemen, I notice the charts suggest that wholesale meat prices follow very promptly to changes in the farm price of meat.

Would it be an overstatement to say that these prices are almost immediate and match the changes in farm prices on a 1-to-1 basis?

Mr. Ahalt. Well, they follow much more closely. That is right. I don't know that you could say a 1-to-1 basis, because sometimes the wholesale price might move before the farm price, depending upon what kind of a situation you were in, but you are quite right in pointing out they do follow them very closely.

Mr. Findley. Now, the chain stores often argue that wage increases, higher taxes, higher light bills, and similar expenses are justification for their increase in spread. It seems to me that wholesalers, meatpackers, are up against the same factors, and yet their pricing follows quite promptly and substantially the changes in farm prices.

Can either of you explain why overhead and nonraw material costs for the retailer should be that much greater than for the meatpacker?

Mr. Ahalt. Well, I think one factor that has to be considered here is that the price at retail does embody some additional services, and so on, that are not included obviously at the packer level or at the farm level. This might be one reason that the closer you get to the final consume product, the more sluggish, let us say, to changes in the live animal they are, than they are at the packer level.

Mr. Findley. It looks from your chart though as if wages, salaries, and employee benefits account for almost half of the markup on meat by the meatpacking operation.

Is that a smaller portion of the total markup than occurs at the retail level?

Mr. Ahalt. You are asking if labor costs represent a smaller proportion of total costs at the packer level than at the retail level?

Mr. Findley. Yes.

Mr. Duewer. I think essentially it may vary some. We could say approximately half of the costs are labor.

In relation to the lag that retailers have, one reason for this is that on the carcass market the price essentially is competitively done faster. In other words, they are on the telephone and they are changing the price every hour, every minute, and so forth, whereas the retailers tend to decide the week previous on the price that they are going to charge the entire next week. And so there would be some lag there.

They also make the offer to buy the meat the week before they actually sell it. And so this is how they base the price. This perhaps doesn't explain the total length of lag, but it would give some idea that retail prices might lag wholesale somewhat.

Mr. FINDLEY. One phrase you used attracts my attention, and that is it is more "competitive" and they are on the phone pricing their products for shorter intervals of time.

May I conclude that you feel that the operation at the wholesale level is the more competitive and more responsive to marketplace forces than is the case at the retail level?

Mr. DUEWER. No, when I use the word "competitive," I guess I was really saying that the information changes faster in relation to the competitive conditions. I wasn't necessarily referring to the fact of competition, because naturaly there is competition between stores in a city. It is just that in general, this is done on a week-to-week basis, instead of a minute-to-minute or hour-to-hour basis.

Mr. FINDLEY. Am I correct that you stated that wages and salaries and employee benefits constitute about half of the cost both at the wholesale and at the retail level?

Mr. DUEWER. I was really referring to the packer and retail level. The wholesaling function, as such, is fairly hard to define, especially——

Mr. FINDLEY. Lets say packer then, the packer and retail, that in both cases wages, salaries and employee benefits constitute about half the costs?

Mr. DUEWER. Right.

Mr. FINDLEY. Thank you very much, Mr. Chairman.

Mr. SISK. Mr. Chairman, I won't take a lot of time. But in trying to go over this chart, which I believe Mr. Findley called to your attention, there was an analysis made of some 15 markets. I just have great difficulty in trying to justify what actually has happened in the marketplace.

There is really a contradiction here. Talking about beef now, what month in the year did you hit the lowest price?

Mr. AHALT. I believe that would be in June.

Mr. SISK. You say May?

Mr. AHALT. In June, about the middle of June.

Mr. SISK. Well, for example, in talking about the chart Mr. Findley referred to and the one that I am referring to here, the variation is great. The peak, I guess, was in January and February as far as farmers' income?

Mr. AHALT. That is right.

Mr. SISK. In looking at the retail price in, let us say, in Washington, D.C. or Los Angeles, or any number of these places, it is just impossible for me to conceive that there is any basic reaction in many of these markets as to the retail price. This seems to me to be an area, although I know you made some comment on it, but an area with not too much investigation.

But, I am concerned about really how much investigation has been made by the Department as to the fact that there has been no reflection in retail prices, generally, whereas there has been a big difference in farm price.

In assessing these, it might have been that they might have been on special or it might have been at a particular time on their own record prices, but when you look at this many markets, you know, it just seems to me it just leaves a tremendous amount of doubt as to what is going on. I just cannot conceive of the prices not following closer to the prices paid for the raw product at the farm level.

I noticed, for example, in Houston on the average in February it was $1.37. Today it is $1.58. In other words, it is substantially higher today, that is, in September, than it was in February.

And in Washington, D.C., it was $1.72 in February and today it is $1.78. Again, of course, I suppose that is the reason for this committee's concern and the hearings today, but I am concerned also that maybe there is not as much concern as maybe there ought to be in your Department.

You know, I am not trying to be critical. I know you've got the same problem as we do, but——

Mr. AHALT. Well, you are quite right. There are some irregularities that appear in these prices. We tend to, Mr. Sisk, look more closely at the Bureau of Labor Statistics figures.

In other words, our retail prices come from the Bureau of Labor Statistics, who have the personnel and the expertise to get a balanced statistical sample. And that same comparison that you have just made shows up differently in their theories.

For example, beef prices at retail averaged $1.50 in February.

Mr. SISK. Right.

How concerned are you in connection with that at the Department, Mr. Ahalt?

Mr. AHALT. Well, we are very concerned about it, Mr. Sisk.

As I mentioned to you, the Secretary has spoken out on this problem several times this year. He established a task force that has recommended a number of actions designed to get at the whole problem of inefficiencies and waste and problems that may exist from the time the animal leaves the farm gate until it ends up on the retail counter.

Mr. SISK. Now, as I understand it, you agree that the actual retail prices, as well as farm prices in connection with meat, that in both cases they more or less peaked in February, 1974?

Mr. AHALT. That is right.

Mr. SISK. And yet there were substantial drops. The prices to the farmer in January went down, yet in Baltimore, for example, there was a 4-cent drop at the retail level between that period of time—no actually, this was a July figure—but it shows as against February and today the price of the average of the five cuts in Baltimore is higher now than it was in February, and the same thing is true in Houston, Tex.

Now, if you are talking about transportation being involved, how much is it involved? Have you taken that into account?

Mr. AHALT. And that same series is averaging about $1.43 in September. So that series, which attempts to measure prices for the country, shows a 7-percent drop, during that period.

But, anyway, I quite agree with you, Mr. Sisk, when you look at individual cities, you see some very unusual kinds of patterns that emerge out of those numbers.

Mr. SISK. Well, of course, just taking the State of Texas, for example, the city of Dallas, they show that in February it was $1.73 in September it is $1.53. It is a 20-cent-per-pound differential, whereas in Houston, which is not too far away, you actually have an increase of $1.37 up to $1.58.

So, I just don't know. As I say, I can understand the concern of the producer out there, the farmer who is trying to produce the food and fiber that we have to have. I can understand his exasperation over the manipulation that apparently goes on.

I am frankly at a loss as to exactly what to do about this.

Mr. Chairman, that is all I have.

Mr. VIGORITO. Well, thank you. If there are no further questions——

Mr. DENHOLM. Mr. Chairman, I have a few questions.

Mr. POAGE. Mr. Chairman, may I impose further?

Mr. DENHOLM. I yield to the chairman of the full committee.

Mr. POAGE. I hate to keep butting in, but let me ask the Department if they could provide us with definite figures as to the amount of beef imports during the months of the year of 1974.

There are a great many people who feel that the action of President Nixon on opening the doors to imports of beef has been extremely detrimental to our market. Now, I am well aware that the foreigners are no more anxious to see 23-cent calves than I am and that this market is not nearly as attractive to the man in Australia or New Zealand as it was a year ago, but I think we've got to have those figures to know where we are going.

Do you have them with you?

Mr. AHALT. Well, Mr. Chairman, I have figures for imports of meat that qualify under the meat import law, and I will give you those——

Mr. POAGE. Well, I assume there wasn't any meat imported that didn't qualify under the law.

Mr. AHALT. Well, yes; the reason my figures here show that is because they include some mutton and goat meat, which is very small. But the total figures in 1974 of meat imports are down 16 percent from the corresponding period of 1973.

Mr. POAGE. All right, now can you give us a table showing monthly figures and showing the time at which the President opened the doors and let us see whether there was any effect or not?

Mr. AHALT. Yes; I will submit the table for the record, which shows the month-by-month data. The import law was suspended on July of 1972, so that there has been no restrictions since that time.

42-780—74——3

Mr. POAGE. Did it show an increase in imports along about September or October of 1972?

Mr. AHALT. Yes; it did, Mr. Chairman.

Mr. POAGE. I will take it that along about that time, then, we will be getting the reflection of the effect of this sort of thing?

Mr. AHALT. Yes.

Mr. POAGE. Now, I ask, can you supply us with comparable figures for 1974 that would show the effect of the opening of the imports on dairy products? I don't remember the date, but it was sometime this year that President Nixon opened the door to dairy products, largely from Europe.

I understand that there has been about one billion, 200 million pounds of dairy products brought in up to now this year. Is that roughly correct?

Mr. AHALT. I believe that is roughly correct, Mr. Chairman, but we will get that information for you.

Mr. POAGE. All right, and can you give us it by month, so that we can see just what effect this opening of the doors had?

Mr. AHALT. Yes.

Mr. POAGE. Because I want it understood here that of course the income of a dairyman is going to determine what he is going to do with his cattle, and remember that a large part of our cow herd is dairy herd.

Mr. AHALT. Yes, sir.

Mr. POAGE. And that influences your meat supply very materially.

Mr. AHALT. Yes, sir.

Mr. POAGE. So, I thank you, Mr. Chairman.

Mr. VIGORITO. Thank you.

Without objection, the information requested by the Chairman will be included in the record at this point.

[The information referred to follows:]

Month	1971 1/	1972 1/	1973 1/	1974 1/
	----------	Million pounds	----------	
January	83.4	86.9	106.2	118.0
February	65.1	80.8	98.4	82.3
March	88.4	75.4	88.3	104.9
April	86.2	105.4	97.0	91.4
May	76.8	107.9	113.0	80.6
June	101.0	106.4	91.5	78.6
July	94.4	106.8	106.0	59.4
August	104.9	164.6	153.7	101.4
September	158.6	163.8	110.3	
October	80.4	145.2	150.0	
November	63.2	119.0	130.0	
December	130.3	93.4	109.1	
Total	1,132.6	1,355.5	1,354.4	

1/ Rejections which occur after entry is made are included in the published Census figures and amounted to 21.0 million pounds for 1971, 17.8 million pounds for 1972, and 18.4 million pounds for 1973.

Totals may not add due to rounding.

USDA 2816-74

Imports of butter, nonfat dry milk and cheese, 1971-74 1/

Month	Butter				Nonfat dry milk				Cheese			
	1971	1972	1973	1974	1971	1972	1973	1974	1971	1972	1973	1974
	Million Pounds											
January	2/	.1	2/	-	.7	-	1.2	.5	11.4	13.8	15.2	37.1
February	.1	2/	.1	2/	-	-	24.5	8.4	9.0	17.2	11.4	54.7
March	.1	.1	.1	2/	.5	.1	.1	67.6	9.1	12.7	14.8	56.6
April	.1	2/	.1	.1	-	.1	-	17.9	12.6	10.0	12.2	18.9
May	.1	2/	.1	2/	-	-	55.4	7.3	12.2	13.0	16.1	17.4
June	.1	.1	2/	2/	-	.2	2.0	11.2	9.9	10.1	20.2	12.6
July	2/	2/	.1	.1	-	-	71.3	1.3	11.1	14.9	31.1	17.6
August	2/	.2	2/	.1	-	2/	27.5	.2	12.2	14.1	14.4	15.3
September	.1	2/	2/		.2	-	48.5		19.1	15.6	13.0	
October	2/	2/	1.8		.2	-	23.0		8.8	17.8	22.4	
November	2/	.1	41.2		.1	2/	12.5		5.3	20.3	29.0	
December	2/	.1	12.1		.4	1.1	.6		15.3	19.9	29.9	
Total	.6	.7	55.6		2.1	1.6	266.6		135.9	179.5	229.8	

1/ Totals may not add due to rounding. 2/ Less than 50,000 pounds.

Dairy Import Actions, 1972-74

Date of Proclamation	Product	Entry Period	Quota Increase	Amount Entered
			Mil. lb.	Mil. lb.
December 30, 1972	Nonfat dry milk	to February 15, 1973	25.0	25.0
April 25, 1973	Cheese	to July 31, 1973	50% increase or 64 mil. lbs.	47.2
May 10, 1973	Nonfat dry milk	to June 30, 1973	60.0	60.0
July 18, 1973	Nonfat dry milk	to August 31, 1973	80.0	80.0
August 28, 1973	Nonfat dry milk	to October 31, 1973	100.0	99.4
November 1, 1973	Butter	to December 31, 1973	56.0	54.9
	Butteroil	to December 31, 1973	22.6	22.6
	Butter equivalent		84.0	82.9
January 2, 1974	Cheddar cheese	to March 31, 1974	100.0	98.8
March 4, 1974	Nonfat dry milk	to June 30, 1974	150.0	113.7

Mr. FINDLEY. Could I ask one more question?

Mr. VIGORITO. Yes.

Mr. FINDLEY. Can you include information about the concentration of the retail meat business in the United States? In other words, can you take the top chain stores, the five or six of them or whatever it would be, and with appropriate grouping indicate in the record the percentage of retail meat volume handled by those chains?

Mr. AHALT. We will certainly try to do so, Mr. Findley.

Mr. FINDLEY. Thank you.

Mr. VIGORITO. Mr. Ahalt, we wish to thank you for your statement and for your remarks in answering questions and would you mind staying until Mr. Denholm gets back. He will ask you further questions then, but we will proceed with the next witness. Would you mind staying until 12?

Mr. AHALT. All right, sir.

[The requested information follows:]

Concentration ratio for 4, 8, and 20 top food chains, 1963-73 1/

Year	Sales: Top 4	Sales: Top 8	Concentration: Top 4	Concentration: Top 8	Total Sales of Food Stores 2/
1963	10,967,311	14,737,040	19.2	25.7	57,254
1967	12,912,515	17,602,288	18.7	25.5	69,113
1970	16,140,970	22,584,994	18.7	26.2	86,114
1971	16,461,219	23,576,615	18.4	26.4	89,239
1972	17,906,466	25,298,906	18.8	26.6	95,020
1973	19,862,838	27,521,938	18.8	26.0	105,731

1/ Sales data for firm obtained from Moody's Industrial Manual aggregated by calendar quarter divided by total sales of food stores.

2/ Survey of Current Business, BEA - Department of Commerce.

Mr. VIGORITO. Our next witness is Mr. C. W. McMillan, executive vice president, American National Cattlemen's Association, Washington, D.C.

Mr. McMillan, nice to have you.

STATEMENT OF C. W. McMILLAN, EXECUTIVE VICE PRESIDENT, AMERICAN NATIONAL CATTLEMEN'S ASSOCIATION, WASHINGTON, D.C.

Mr. McMILLAN. Thank you very much. It is my pleasure and I deeply appreciate this opportunity to appear before your subcommittee today.

I do have a brief statement, which I would like to read for the record and then augment it, with your permission.

Mr. VIGORITO. You may proceed.

Mr. McMillan. The charts accompanying this statement, I think, are self-explanatory. They graphically illustrate the plight of the domestic beef cattle industry.

Specifically, these are charts showing the choice slaughter steer prices, the price of 600-pound feeder animals and another showing 400-pound feeder steers. Note these figures have been developed by actual sales by cattle feeders and grass cattle producers, who are subscribing to Cattle Marketing Information Service (Cattle-Tax).

This was started by the American National Cattlemen's Association in 1958 as a service to cattlemen nationally. It is supported entirely on a subscription basis by bona fide cattlemen and the program is dedicated to provide the most accurate, up-to-date information available so that cattlemen may make sound marketing decisions in the sale of their own cattle.

I am using these figures today, rather than those of the Department of Agriculture, since we consider them to be the most up-to-date available to graphically show the economic conditions within the U.S. beef cattle industry.

I want to make it clear we don't quarrel with nor challenge USDA figures. It is just we felt these to be perhaps more up to date and meaningful to the committee.

Combined with the general decline of beef cattle prices over the past 12 months has been a rapidly escalating cost of feed ingredients. Since mid 1973, cattle feed ingredient costs have gone from approximately $80 per ton to well in excess of $120 per ton.

Because of price declines for choice slaughter cattle in the past 4 to 5 weeks, cattle feeders once again are experiencing a loss of approximately $100 or more per head. This has been going on for the past year on an up and down basis.

In some instances, the losses have reached the magnitude of $200 a head.

Recent studies show that it costs $55 to $60 a hundredweight to produce a 400-pound calf. These figures I am about to relate would tend to substantiate the figures as outlined earlier by Mr. Poage.

Today's price of approximately $28 per hundredweight means that the return for a 400-pound calf is $112. If you take the lowest of the cost of production figure of $55 per hundredweight, it means that there is a net loss of $108 on every 400-pound calf being sold by the basic beef cattle producer today.

Understand that these are average figures, but nevertheless they illustrate the problem.

These losses all add up to the fact that the cattle industry is in a very serious financial bind which is causing the slaughter of many cattle directly off grass. Approximately 40 percent of the total commercial slaughter in the United States today is nonfed. In recent years that figure would be close to 20 percent, most, if not all of which, is cows and bulls.

We have reason to believe that a larger than normal amount of the nonfed slaughter is females which means a cutback in the basic cow herd. It also sets the stage for less beef to be produced in future years unless there is a sharp turn-around in the economics of the industry.

The balance on the nonfed slaughter is what is commonly referred to as grass beef. This is apparently going into retail channels at a price discount which, in effect, is pulling down the price of fed beef.

Of course, the more of the grass beef that goes to slaughter now means that there will be fewer fed cattle available in the longer term coming out of the feedlots as grain finished.

Also, cattle which are going on feed tend to be heavier now, so cattle feeders are shifting with the economics. They will feed the heavier cattle that are put on feed for a shorter period of time, thus necessitating less expensive grain while not sacrificing the quality of the end product.

In summary, the beef cattle industry continues to go through the economic wringer. There is no relief in sight.

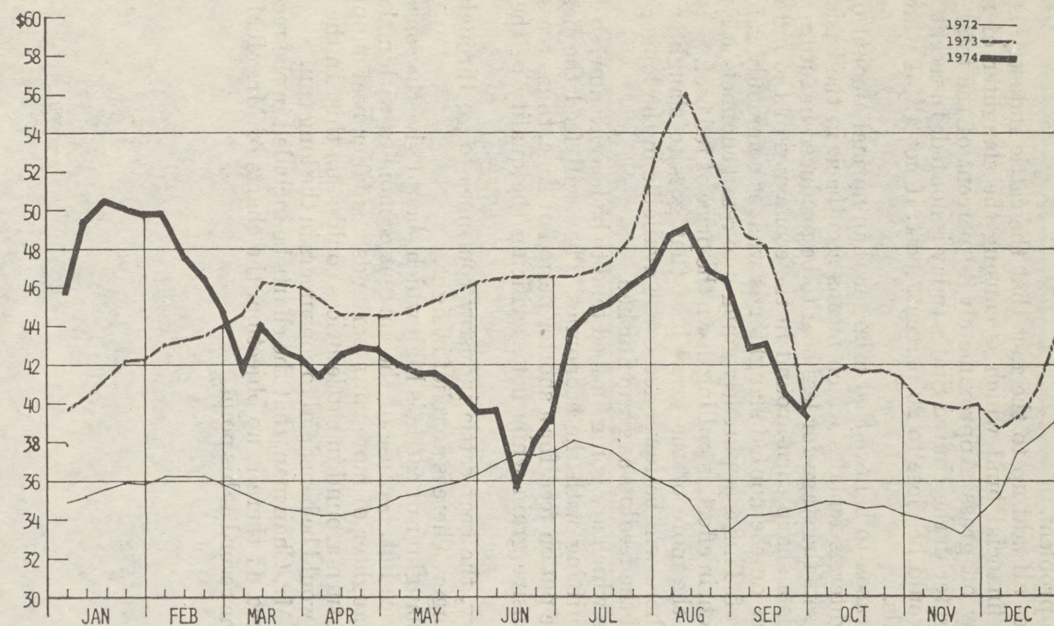
The total slaughter of cattle is high which should give the consumer a break in price but, because of the current economics within the industry, the slaughter of more cows portends a smaller beef supply in the future. A turn around in cattle prices could stem this. In the final analysis, this would be beneficial to consumers in the long run.

May I ask, Mr. Chairman, that the charts be included in the record?

Mr. Vigorito. If there is no objection, the charts of Mr. McMillan will go into the record at his point.

Cattle-Fax Choice Steer Prices

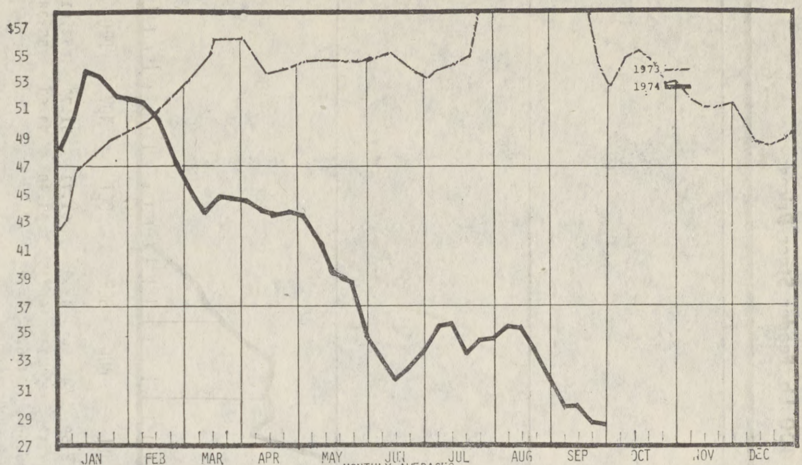
weekly average price



MONTHLY AVERAGES

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1972	35.35	36.05	35.00	34.40	35.55	37.20	37.55	34.75	34.40	34.85	34.00	37.60
1973	41.15	43.40	45.75	44.85	45.40	46.60	47.40	53.35	45.40	41.65	40.00	40.60
1974	49.15	45.87	42.68	42.41	40.47	38.11	46.25	47.94	40.98			

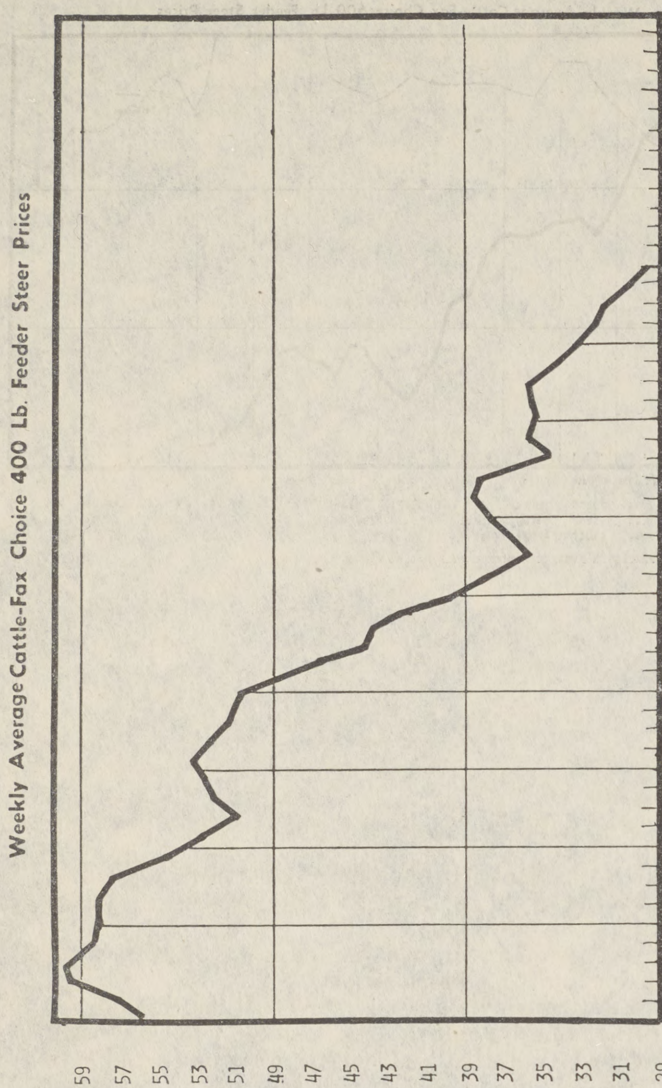
Weekly Average Cattle-Fax Choice 600 Lb. Feeder Steer Prices



MONTHLY AVERAGES

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1972	38.62	39.54	39.25	38.84	39.63	40.83	41.94	41.90	42.99	44.21	44.01	45.13
1973	48.03	51.45	55.00	53.97	54.19	53.83	55.08	62.95	56.17	53.47	50.74	48.25
1974	52.46	48.32	44.17	43.56	37.94	32.90	34.82	34.12	29.22			

1/ WEIGHTED AVERAGE PRICES ON AVERAGE CHOICE CATTLE SALES, F.O.B. THE RANCH



MONTHLY AVERAGES

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1972	44.01	44.71	45.28	45.55	46.68	47.99	48.59	48.66	49.99	51.71	51.77	52.01
1973	55.17	59.34	64.72	64.74	66.31	65.64	67.12	73.73	66.95	63.48	59.63	55.38
1974	58.85	55.78	52.44	51.46	43.38	37.28	36.50	34.62	31.00			

1/ WEIGHTED AVERAGE PRICES ON AVERAGE CHOICE CATTLE SALES, F.O.B. THE RANCH

Mr. McMillan. May I also say, Mr. Chairman, that there has been reference made to the price survey of the American National Cattlemen's Association; the most recent of which came out on September 18. I might add that this is one of a series of surveys that we did start earlier this year.

I imagine the statisticians would say it is imperfect, and we would accept that, but we started it because the Consumer Price Index issued by the Department of Labor has a tremendous time lag. Normally, the survey is made on Tuesday, Wednesday, and Thursday, of the first full week of each month, but the figures aren't published for another 6 or 7 weeks.

These figures reflect something that happened far in the past. As we went into the price decline earlier this year, ANCA felt that as a service to consumers it would be beneficial to them if they had more up-todate information. That is why we started the 19-city survey.

It has been interesting to see the reactions. And, as has been pointed out, there are wide differences between cities.

I can't explain all of these differences. I imagine the competitive situation within each of the cities would be one factor. I might add that in each of the cities the three major retail food chains are those that are surveyed. The five cuts are the same in each city.

In other words, you see there are five cuts that are surveyed in each of the cities, so that we have continuity across the United States. We hope that the service has been beneficial to consumers.

We think it has been very revealing in terms of giving a quick view, so to speak, of what prices are doing. Even though it may not be statistically sound, as the statisticians may say, the fact is we feel that it does give the consumer the prices that do exist in the retail store more quickly than some of the Government surveys.

I will be happy to try to answer any questions you may have, sir.

Mr. VIGORITO. Thank you. Mr. Poage?

Mr. POAGE. I just want to thank him for his statement. I think that the only criticism I would have is I believe the prices are a little high; the reported prices are a little higher than what they are actually getting down in our part of the country; I know we are suffering, of course, with the pressure brought about by the drought, but our farmers did get a little lower than average.

You show 20 cents, I believe, for a 400-pound steer. I don't believe it brought that in the last month or two down where we are.

Mr. MCMILLAN. Well, of course, these are national average figures, Mr. Poage. They are mostly average figures which would tend to reflect that general——

Mr. POAGE. Oh. I didn't mean anything is seriously wrong with them. They are probably correct.

But to the man who is actually sending his cattle to auction and has been getting returns of about 25 or 26 cents, why he feels that you are a little bit high on your report.

But certainly your reports are not slanted in favor of the producers in any way. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. McMillan, am I correct in the third chart, that the average from the high point in August of 1973, down to the recent month of September 1974, that your charts show more than a 50-percent drop?

Mr. MCMILLAN. That is correct.

Mr. VIGORITO. In fact, a 60-percent drop?

Mr. MCMILLAN. That is correct.

Mr. VIGORITO. Well, I don't know many businesses that would take a 60-percent drop in 13 months and continue to survive.

Mr. MCMILLAN. That is absolutely correct. Of course, I think it should be recognized that we were perhaps in an "artificially" high feeder cattle price situation in August 1973. This, of course, was at the time we had price ceilings and there was a lot of false optimism being expressed.

So, the August figure I would consider an artificially high figure, but your point is still well made. As you refer to my statement, you see an average price of $55 per hundredweight just to break even on a 400-pound calf. That still dramatizes the plight in which we find ourselves.

Mr. VIGORITO. Any additional questions?

Mr. FINDLEY. Mr. McMillan, I want to thank you for appearing. I am appalled that some of those who were requested to appear here have chosen not to. I think this reflects a lack of cooperative spirit on their part, but at least you have come.

I would like to ask a couple of questions to establish the level of competition in the production of meat.

Could you give us just an estimate as to how many different producers there are in the beef business in the United States?

Mr. MCMILLAN. Well, let's see. The latest census figures I think show 2½ million farms, if I recall the figure right.

Mr. FINDLEY. Excuse me, go ahead.

Mr. MCMILLAN. It is somewhere in that neighborhood. I don't recall exactly. Most of them would have cattle, but of course, that is not a fair measure because I think you have to look at the cattle production and in the feeding business on more of a commercial basis.

You have to look at those who have an integrated general farm-livestock operation, or those that are totally reliant upon the production of cattle.

Mr. FINDLEY. May I rephrase the question. How many farmers in the United States consider that livestock production is their main line?

Mr. MCMILLAN. Oh, I think for livestock—do you mean livestock or just cattle?

Mr. FINDLEY. Livestock or cattle, whichever you have the figures on.

Mr. MCMILLAN. I can't speak for the hog producers and I am not that familiar with it——

Mr. FINDLEY. Well, put it on a cattle basis.

Mr. MCMILLAN. All right, on a cattle basis I would say there would say there would be in the neighborhood of probably 1 million farms that would consider cattle to be their major source of income.

Now, I am including in this those that would be grain farmers who would utilize the production of their grain through cattle being fed on their farms. Now, if you went into just a total cattle operation, or those that are on a commercial basis producing just beef cattle—and I am thinking of the basic beef cattle herds—that figure would probably be closer to one-half million.

Mr. FINDLEY. And is it correct to say that almost all of these are independent merchants, handling their commodities?

Mr. MCMILLAN. That is correct.

Mr. FINDLEY. Well, I hope that you keep your 19-city survey going. I think it is a very useful point of reference. I just wish our Government had been in this data securing field long ago, and of course perhaps it will be in time.

But, in any event, I hope that your organization stays with it.

You heard the Government witness indicating that some of the unusual differences in prices disclosed by your survey could be explained as specials, and that individual stores might offer a special on a given day. To what extent do you think this explains the irregularities in pricing that your survey has disclosed?

Mr. McMillan. I suppose you could say that the specials on any given day in any given city in any given group of stores could have an effect. But, on the average, and I think that is what you have to look at here, the average, because you take into consideration five cuts, ground beef, round steak, sirloin steak, T-bone steak, and chuck roast.

Mr. Findley. Those are the major sale items?

Mr. McMillan. That is correct. At some point in time, you are going to catch any of these as a special on any day that a survey is made. Therefore, in the long pull it would tend to average out.

You may have ground steak featured in this particular survey, but at the time you take the next survey a month later you might have chuck roast as the feature. I think it would tend to "wash."

Again, though, I must admit it is not statistically pure, as the statisticians would look at it.

Mr. Findley. I have one final question. Is there any trend or any change in recent years which has reduced the efficiency of cattlemen in marketing their commodity? Are there fewer markets, for example? Are the markets less competitive?

Mr. McMillan. The trend in the cattle business as far as marketing live animals is concerned—and I assume your question is directed toward live animals—has been to more direct marketing. This is away from the terminal markets where railroads were the principal means of moving livestock to a terminal market where packing plants were located.

With the advent of the Interstate Highway System and greater use of trucks, the trend has been more to direct marketing.

That doesn't mean that auction markets aren't important as part of the business. However, many terminal markets such as we have know them such as in Chicago, don't exist anymore.

I would say the trend has been toward more efficiency in the final analysis than to less efficiency in terms of marketing live animals.

Mr. Findley. Thank you.

Mr. Sisk. Mr. Chairman, I would like to ask on one particular question.

Mr. Vigorito. Please proceed.

Mr. Sisk. Mr. McMillan, in a number of discussions that some of us have had with the Department with reference to getting more cooperation from the chains and the supermarkets and so on in connection with the sale of meat, using leaders, for example, and doing a better promotional job, and so forth, to what extent do you feel that the retail outlets have cooperated basically in connection with the cattle people, the beef people in connection with the sale of their products?

Now, before you answer, on the other side—so I can just put it in perspective—rather than maybe cooperating, have they tended or is there a feeling by the American Cattlemen's Association that the chain stores, rather than doing that, they have at times or maybe even consistently taken advantage from the standpoint of attempts to increase their overall profit picture through retaining a rather high meat price level rather than cooperating in moving a substantial amount of the meat?

Would you make some comments on this?

Mr. McMILLAN. I would like to back up to about a year ago, and then more or less bring it up to the present time in response to your question, Mr. Sisk.

During the period when we had price ceilings, the incentive to cooperate in terms of specials or featuring beef pretty well went out the window. Putting it another way, there really weren't any beef specials during the time of the price ceilings.

Mr. SISK. Yes, I realize that.

Mr. McMILLAN. I think that consumers lost as a consequence. As a result, many retailers we felt perhaps got out of business or forgot how, I should say, to feature beef.

This prompted our association, our board of directors, in March of this year to encourage the retailers to get back into the business of merchandising and featuring beef. We called on some 40—and I believe the figure was 40, but it might have been less—retail food executives to encourage them to get back into aggressive merchandising. They started cooperating.

I think pretty well from that point on we started seeing more beef being featured, particularly on the weekends. The important thing I think is there traditionally has been a time lag on price. I say a time lag in this sense, Mr. Sisk, that where we have had a long supply of cattle, and this has tended to reflect a rather quick decline in live prices, but there has been less inclination on the retailers to reflect that decline rapidly.

There usually has been sometthing like a 2- to 4-week time lag.

By the same token, when we have had a shortening of supply of live cattle and prices reflected this rather rapidly, the retail prices didn't respond upward as fast.

We have been experiencing, in my judgment, distortions in the market from the price ceiling program. We have seen tremendously wide fluctuations of ups and downs in prices of live cattle.

Because of this, I think the retailers have been less inclined to reflect these price changes because of the gyrations of the marketplace. As a consequence, the prices have sustained themselves at a higher level than they would if the distortions that were caused by the price ceilings a year ago hadn't moved into the marketing channels and the marketplace.

Mr. SISK. Well, do you attribute these widespread gyrations, using your word as I understand it, to some extent because of the price ceilings and therefore the market hasn't really recovered sufficiently for the impact of that to really begin to stabilize?

Mr. McMILLAN. I think that was the thing that caused the distortions and the disruptions to take place, and we still are suffering as a consequence. That period of time can be used as a classic illustration of why price controls really don't work and why in the long run the consumers lose, as well as the producer of the basic food product.

Mr. SISK. Well, I became thoroughly convinced of that a long time ago; that is, that they weren't working. In fact, really what it did, it proved to a detriment, I think to the consumer.

Mr. McMILLAN. That is right.

Mr. SISK. Because I think what actually happened, as you say, there ceases to be any real merchandising, it seems to me, in the retail outlets of meat. And since they hung onto the top price as long as they could, the consumer suffered. It was a take it or leave it situation.

Mr. McMILLAN. That is right. It stayed there.

Mr. SISK. That is all.

Mr. VIGORITO. Mr. Denholm.

Mr. DENHOLM. Thank you, Mr. Chairman.

I am sorry that I missed your direct testimony, Mr. McMillan. I was called out of the hearing to meet with several livestock producers.

Now, in reference to the first graph in your prepared statement, it appears that prices were on a downward trend after January 12, 1974, until about June 15, is that correct?

Mr. McMILLAN. That is right. They bottomed out in June.

Mr. DENHOLM. Now, your findings support what I reported in May 1974. It is interesting to note that prices increased after about the middle of June.

What in your judgment could possibly cause the erratic downward trend and daily ups and downs with an ever-increasing farm-retail price level spread?

Mr. McMILLAN. Well, that is a tough question to answer, and I wish we had the answer to it. Often it seems, as I was responding to Mr. Sisk before you arrived, the marketplace just seems to react in the opposite manner in which you would normally expect it to act.

In the period you speak of, in June, we had a tremendous supply of total red meat available in the United States as contrasted to 1973. We had a lot of hogs and a tremendous number of cattle, as well as a large supply of chickens.

During the latter part of the summer, as I recall it, and that is going from June to August, as is illustrated in this chart, the slaughter of hogs dropped off. The cattle slaughter stayed at a rather high level, whereas hog slaughter tended to drop off.

Now, of course, we have large hog slaughter and large slaughter——

Mr. DENHOLM. Excuse me for interrupting, but is it ordinarily characteristic of the market that the retail price should decrease when the slaughter numbers drop off?

Mr. McMILLAN. No, it should be the opposite.

Mr. DENHOLM. Of course, but how can you explain the behavior pattern of the marketing trend?

Mr. McMILLAN. I just can't explain it to you, Mr. Denholm. It is a mystery to me. I would like to have the answer myself.

Mr. DENHOLM. Do you believe that the market price level for live-weight animals in the agricultural economy is determined by the free competitive market system?

Mr. McMILLAN. Yes, on live animals, by the free competitive market system. The terminal market, as we have known it, doesn't reflect the volume of sales of cattle that the terminal markets formerly did.

The vast volume of cattle are moved in what we call a direct sale basis. The direct sales really reflect more of what the market is doing rather than the terminal markets.

The terminal markets will tend to give you a trend, but the true pricing I think at the direct sales end.

Mr. DENHOLM. How long have you been personally involved in the marketing of livestock?

Mr. McMILLAN. Well, I am not in the cattle business myself, but I guess I have been very close to the situation since I used to be a county extension agent and that started when I graduated from college in 1948. I have been close to it since then.

Mr. DENHOLM. Was there a time when the producers could depend on the central public markets as the system of determining the price levels?

Mr. McMILLAN. I think on the terminal market basis, yes, at the time I went to work for the Extension Service they were the dominant force in the marketplace.

Mr. DENHOLM. This is the Domestic Market and Consumer Relations Committee. I think that we need to inquire into the marketing structure and determine what is occurring in the marketing phenomena. Have circumstances changed in the market system?

Mr. McMILLAN. I was discussing this in response to a question from Mr. Findley before you returned. There have been so many changes taking place within, let us say, specifically the cattle industry since World War II, that it is hard to keep up with it. We used to rely on railroads to move our cattle to market. The railroads don't haul any cattle any more. They don't want to haul cattle any more. We have a hard time to get them to even haul the dressed meat product.

The development of the highway system and the development of better truck transportation, has changed the whole structure of where cattle are produced, fed, and slaughtered. We used to bring all the cattle into a market like St. Paul or Chicago or Sioux City by rail, and the big packing plants were there. That is where slaughtering was done. That is where the distribution took place. It is where you disassembled the animal. Now cattle feeding has shifted to the point where commercial feed lots—and I am thinking of feed lots of 2,000 head capacity or more and not necessarily just custom feed lots—are the dominant force in the feeding of cattle.

They also moved into the more arid climates. One of the reasons that has been accelerated is because of the Water Quality Act and its related pollution problems.

They moved where evaporation rate is higher. And along with the moving of these cattle feed lots from the traditional cattle feeding area in the Cornbelt has been the packing plants, who in an economic sense realized it was cheaper to move the dressed product than the live animal to the point of consumption.

These have been natural economic phenomenas. I don't consider them bad. I think in general, and I underscore the in general part, there has been little at the live marketing level of what you could be critcial of in terms of any so-called hanky-panky.

Mr. DENHOLM. Well, I appreciate your response. It is not my purpose to evaluate the advantage or disadvantage of the change. However, the result is of interest and it is important to preserve a domestic marketing system that will provide for a relative price level to consumers and producers as a result of demand and supply in a free competitive market.

Ordinarily, the prices received by producers should decrease when the retail price is low and then as the retail price increases as the result of increased demand the transfer of the increased demand and price level at retail should be reflected in the level of prices received by the producers for liveweight animals. Now, those economic principals are not working, and I think the duty of this committee ought to be to inquire into what has happened and what is occuring in the market system.

You mentioned commercial feed lots. There were 704 commercial feed lots on June 1, but as the result of some of the losses that occurred, there are now 612 commercial feed lots in this country.

Now, will you address yourself to the emergency loans program for cattle replacement on feed?

Mr. McMillan. One of the interesting things is that most of those are being sought by the basic producer rather than the feeder.

Mr. Denholm. Do you know whether or not the owners of commercial feed lots are participants?

Mr. McMillan. We conducted a survey—and these figures would be stale at this point—but the figures reveal in the commercial feed lots—feed lots of 2,000 capacity or larger—about 75 percent of the cattle were owned by cattleman and we identify them as feeder lot owners themselves, or feeders who chose to go out of feeding at their own place and feed in commercial feed lots. Also included in that 75 percent is a large number of basic cattle producers themselves. That is, they retained ownership of the feeder cattle while they are being fed. I think the balance would be what you can call in a broad term "investors."

Mr. Denholm. Do you have an opinion as to the number of cattle and the tonnage available on a daily basis from commercial feed lots, and the influence of that availability on price trends of the public market?

Mr. McMillan. I don't know that we could really compare and get a meaningful figure on it. The public markets—well, I assume you are referring to the terminal markets?

Mr. Denholm. Yes.

Mr. McMillan. Those prices would reflect trends and not necessarily the most representative figures for sales. You would get a similar trend relationship irrespective of whether you would report commercial feed lot prices or the terminal market prices.

Mr. Denholm. The thought has occured to me that bona fide producers have produced an economic phenomena that is working to their disadvantage in the commercial feed lots. The finishing and marketing procedures they have created to provide a supply or source of continuing supply for the market that is to their disadvantage in the free competitive price marketing system of the central public terminal markets.

Do you concur?

Mr. McMillan. Let me come in the back door to answer that this way. There is a basic reason for feeding cattle. That reason is that you want to supply the marketplace 52 weeks out of the year with a consistent quality. It is impossible to do this with just marketing off grass.

You have seasonality and you have quality variations that occur marketing cattle direct from grass.

Now, the growth of feeding in the United States has had the effect of creating a demand because of this consistency of quality that does exist through the 52 weeks. The consumer, any time he goes into the food store, is able to pick up beef of the same quality as the last time it was purchased.

Mr. Denholm. If that theory was sound, then there should be stability of price in the market rather than the erratic behavior of the market.

Mr. McMillan. That is exactly the point I was leading up to. Because you then, under normal circumstances, would level out the supply of beef to the marketplace.

Mr. Denholm. Does the industry that you represent have any suggestion for this committee as to what we can do to improve the marketing system in the United States?

Mr. McMillan. Well, I would think, Mr. Denholm, that an inquiry on the part of the committee into the competitive position of markets would be very timely. This has been done from time to time, and I think, as changes occurred in the markets and the business itself, it has been helpful to have inquiries such as this.

I personally am satisfied on the live cattle end now that we do have a strong competitive position.

Mr. Denholm. Well, I tend to agree with you. However, that is the limit of my knowledge on the live product marketing procedures. I have had no experience in the wholesale or retail marketing areas.

I don't know what happens after the carcass is on the rail—can you explain that or give us any information on the marketing procedures thereafter?

Mr. McMillan. Getting back to your original point, an inquiry by theh committee into this would maybe reveal some of these things on which both you and I remain in the dark.

Mr. Denholm. Do you think any agency of the executive branch of the Government, such as the Federal Trade Commission or the Antitrust Division of the Justice Department should or has or could make inquiry into it?

Mr. McMillan. It is my understanding that the Federal Trade Commission presently is making inquiry into the retail end, the competitive aspects and price spread problem.

Mr. Denholm. Mr. Ahalt testified that the net margin profits of packers or wholesalers and retailers—I don't know which, was something like 0.4 percent a year ago and now is about 0.9 percent in 1974.

Now, transferred into dollars, what does that mean to the industry?

Mr. McMillan. I don't have those figures. You are thinking of the net profit?

Mr. Denholm. Yes; the change from the net profit margins of the industry on a comparative basis reported in dollars?

Mr. McMillan. In the interests of time, though, perhaps we could just supply that for the record?

Mr. Ahalt. We can get it, Mr. Denholm, if we don't have it here with us.

[The requested information follows:]

Profits (after Federal income taxes) and Sales of 15 leading retail food chains, 1964 to 1974 1/

Year	Sales	After-tax Profits	Profit Change from Previous Period	Profit as Percent of Sales
	- - - in millions of dollars		- - - - - - - - - Percent	- - - - - - -
1964	$18,412,391	$233,841	6.8	1.27
1965	19,171,614	241,246	3.2	1.27
1966	20,561,680	261,356	8.3	1.27
1967	21,502,346	235,468	- 9.9	1.10
1968	23,439,117	247,531	5.1	1.06
1969	25,969,979	280,959	13.5	1.08
1970	28,319,816	293,796	4.6	1.03
1971	30,026,585	262,855	-10.5	.88
1972	32,176,962	191,192	-27.3	.59
1973	36,414,477	222,634	16.4	.61
1972				
Jan.-Mar.	7,591,377	81,634	41.8	1.08
Apr.-Jun.	7,570,994	30,967	-62.1	.41
Jul.-Sept	8,276,316	9,133	-70.5	.11
Oct.-Dec.	8,738,275	69,458	7.6	.79
1973				
Jan.-Mar.	8,342,411	30,957	-55.4	.37
Apr.-Jun.	8,673,359	59,634	92.6	.69
Jul.-Sept	9,434,761	40,777	-31.6	.43
Oct.-Dec.	9,963,946	91,266	123.8	.92
1974				
Jan.-Mar.	9,644,441	87,486	- 4.1	.91
Apr.-Jun.	9,719,711	87,057	- 0.5	.90

1/ Compiled from Moody's Industrial Manual.

Mr. Denholm. I think it would be meaningful if you could convert net profit margins to dollars.

Another point, I would like to inquire on just as quickly as I can is that when statistics are reported with averages on charts, that does not take into account the erratic behavior of the domestic market that is $4 per hundredweight lower one day and $3 up the next day, does it?

Mr. McMillan. No; it does not. Nor does it reflect these gyrations.

Mr. Denholm. In contemporary language that is "ripoff"—and that can occur within the statistical averages as to any given day or any given sale? Is that correct?

Mr. McMillan. That is correct.

Mr. Denholm. That is a devastating and intolerable situation. We cannot permit it to occur if a free competitive marketing system is to be preserved.

Thank you very much.

Mr. Poage. Mr. Chairman, may I again impose on the committee to ask a question or two.

In this discussion of the survey that was run by the American cattle raisers—and I think it was a good one—but I do want to submit for inclusion with the files and not the record a certain advertisement from this year and an advertisement from last year and give you a summary of them.

This was done by one of our staff members just this morning and we have the advertisements this year and for last year. This is for the same stores and it shows that Safeway—and this will relate to the specials. Your figures related to regular prices, but the specials are what the housewives look for, I am told, or rather hope that happens in my household.

Now, Safeway last year on October 3 and 4 of last year was selling boneless roast at $1.17 a pound. October 3, 1974, that same item was quoted at $1.29 a pound, both in Washington, D.C.

The same store, Safeway, offered ground beef on October 4, 1973, for $1.19 a pound. The same item, ground beef, on October 3, 1974, was quoted at $1.19 a pound, exactly the same price.

A&P, on October 4, 1973, quoted as selling boneless round roast at $1.04 a pound. This year they are quoted at $1.39 a pound, which is a reduction of 10 cents.

A&P was quoted as selling round roast at $1.79 and today they quote it exactly the same price of $1.79 a pound.

There is only one item on which there was any reduction, and there was exactly the same increase in one item and the other two items were the same both years. Now, those are the items that these stores are pushing.

Of course, we couldn't make comparisons of all of them because they don't quote the same things all the way through, but these are the same items.

I ask unanimous consent to file these in the files and not with the record.

Mr. Vigorito. If there is no objection, they will be kept on file for the committee's use.

[The information referred to can be found in the files of the committee.]

Mr. McMillan. May I make one comment? Mr. Poage, earlier you referred to the import situation. I would like to make a brief comment with regard to beef imports.

The Secretary of Agriculture came out yesterday with an announcement that expected imports of beef into the United States under the act of 1964 are going to be under the trigger point as called for in the law. That is apart from the fact that earlier this year the President suspended the quotas.

I would like to make this point, because I think it bears watching by the members of the committee. Europe has an embargo on beef imports, and that likely will be maintained through 1975. Japan has an embargo on imports and that is going to be well into 1975. Canada also has established quotas.

This means that the U.S. market is the only one in the world remaining totally open to fresh, chilled and frozen beef imports. Meanwhile, Australia is suffering essentially from the same thing we are. They are our major supplier.

Their prices are severely depressed largely because of the fact other import markets are closed and the fact that our markets have been so depressed in the United States. They had a very favorable growing season a year ago and they are now in their Spring. They apparently again have favorable conditions for grass.

Therefore, we can expect that sometime hence those cattle that are all backing up in Australia are going to come to market. The United States sits here wide open. That is why we want to bring attention to beef imports, particularly leading into 1975 with our very long domestic supply situation on live cattle and the large slaughter of grass cattle that is going to come about.

Our Association points out we can't sit by in 1975 and remain an open market while the Australians have got to have some place for their products to go. I hope that this committee will be watching this thing very closely.

On January 1, the Meat Import Act of 1964 automatically reactivates itself. I think it is a very critical thing that we let the act have an opportunity to operate so that quotas will not be suspended as they have in the past.

Mr. VIGORITO. Thank you very much for your statement and your comments. You can rest assured that that the committee will keep an eye on imports.

Our next witness is Richard Lyng, president, American Meat Institute, Washington, D.C.

STATEMENT OF RICHARD LYNG, PRESIDENT, AMERICAN MEAT INSTITUTE, WASHINGTON, D.C.

Mr. LYNG. My name is Richard Lyng. I am president of the American Meat Institute in Washington, D.C. The institute is the national trade association of the meat packing and processing industry. Our membership is comprised of approximately 300 meat packers and processors doing business in all 50 States. In addition, we have about 700 associate members who supply goods and services to our packer and processor members.

I want to thank the committee for the oportunity to present our views on the meat situation as it developed in recent months. This is of great concern to use in the meat processing industry, as well as to members of this committee and to consumers.

America is a great meat-eating nation. Troubles in livestock production become troubles for us all. An adequate supply of meat at reasonable price levels is in the best interest of every one concerned—producers and consumers alike. All of us honestly wish we could return to that condition right away. But it is not to be.

PRICE TRENDS FOR CATTLE AND BEEF

It often has been charged that "middlemen's" profits are too high, and that farm and wholesale prices for beef have not been passed along to consumers.

This is not true. As chart No. 1 shows, farm, wholesale, and retail beef prices do move together. It is true that there are lags in the short-ran adjustments of these prices, especially in periods of wide price swings, such as have been experienced during the past 2 years. Nevertheless, no market—farm, wholesale or retail—is isolated from the rest, especially in today's business environment of well informed customers and fast communications.

PRICE SPREADS FOR BEEF

Here we have a chart showing the average retail and wholesale price of choice grade beef and the farm values of choice grade cattle. The figures are up to date through the first two weeks of September. Two points are readily apparent from this chart.

(1) Prices of beef and cattle do go up and down together in the short run as well as the long run. However, as already indicated, these price movements are not perfectly correlated.

For one thing, even though the statisticians work hard at their jobs, it simply isn't possible to construct one average retail price, for example, that represents all the retail cuts in all meat cases for the entire month.

Also, a complication which cannot be dismissed is that these three levels of prices—producer, wholesaler, retailer are essentially three different markets with their own sets of supply and demand conditions separated by geography, by time, and by type of customer or services rendered.

(2) Secondly, I'd like to mention specifically the dotted area on chart No. 1, which is officially labeled the "farm-carcass spread." (The figures have been adjusted for by-product credits and to compensate for shrink in processing and cutting into retail cuts.)

Leaving out the summer of 1973 when wholesale markets were so disrupted that they couldn't even be quoted, these data show that the farm-carcass spread has averaged slightly less than 10 cents per retail pound of choice beef.

In some months the "spread" has averaged more than this and in some months it has been less. For the first half of September it was 10.9 cents.

Over the years spreads in the food business have been studied by committees of Congress and by specially appointed commissions. USDA recently completed a special task force report on food margins. It clearly points out that the direct costs of packing, processing, and distributing meats have skyrocketed during the past 6 months. Labor contracts contain cost of living escalators; energy costs have doubled and tripled; packaging materials, which largely depend upon petroleum-based feed stocks, have leaped to record highs; and transportation costs are the highest ever. These and other high costs, such as interest, taxes, and the cost of machinery replacement and repairs make it impossible for packers and processors to operate without some expansion in margins.

Incidentally, a large number of our increased costs have been caused by recent Government programs. There is not time to detail the expense of water, air, and noise pollution regulations nor to detail occupational safety demands or to talk about the millions of dollars which meat packers and processors have invested to comply with meat inspection standards. All of these may be highly desirable and good for society but there is no denying that they cost money and make it necessary to widen margins.

PACKER PROFITS MODEST

To illustrate further the part played by the farm-carcass spread in prices received by farmers for cattle and prices paid by consumers for beef, here is a second chart (No. 2) which shows how the margin is distributed between the various costs and industry profits. This chart was made 2 months ago using USDA figures for April and preliminary figures for 1973 packer costs and profits. Later data do not alter the picture shown by this graph.

Note that the bar at the left is labeled "Retail Beef Dollar," from which 7.4 cents went to support the processing and wholesaling sector of the beef industry.

The middle bar is the breakdown of this 7.4 cents. Note that 3.7 cents or exactly half went to pay wages, salaries, and employee benefits. Rent, taxes, supplies, used up 3.4 cents, leaving only three-tenths of 1 cent for packer/wholesaler profits.

The right hand bar shows the distribution of these profits. Note that half were retained by the industry to cover investments in research, needed new facilities and equipment, and to comply with new Federal regulations in such areas as water, air, and noise.

PRODUCERS' DILEMMA

Thus far we've made the point that packers' margins are not excessive and cannot be regarded as a source of improved profits for the cattle producing industry.

We don't wish to leave the impression of being disinterested in the bad losses suffered by cattle feeders in recent months. While it may be unnecessary to review the unhappy events of the past 2 years, it should be noted that many of the problems we are experiencing today were created many months ago, some by governmental action. The rigid price controls on meat in March 1973, the illogical price control actions of July in which the pork price freeze was lifted but beef was not, and the final lifting of the rigid beef price lid in September created distortions in the market place which are major contributors to the problems we face today. To this list we can add the effect on production of the banning of DES, the devaluation of the dollar, worldwide crop shortages leading to large feed grain exports, 1974 weather problems, skyrocketing inflation at home and abroad, and the energy crisis. All of these factors have contributed to a serious depression in the livestock industry.

The coming months, perhaps the coming years, will not be easy ones for the livestock and meat industries. Shortages of feed, continuance of high prices for other farm inputs, and the pressures upon the consumer dollar all make the future highly uncertain.

We share everyone's hopes that ways will be found to substantially slow the rate of inflation. We pledge our wholehearted efforts toward that goal.

[The charts referred to by Mr. Lyng follow:]

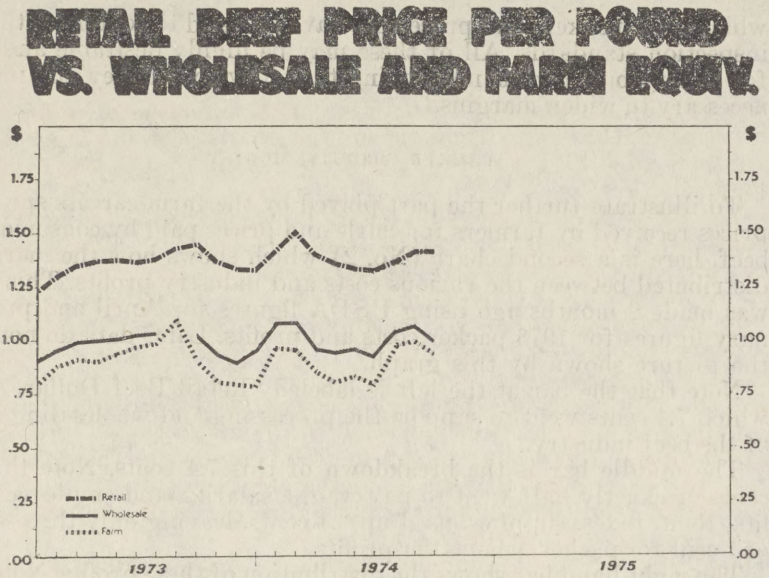


CHART No. 1

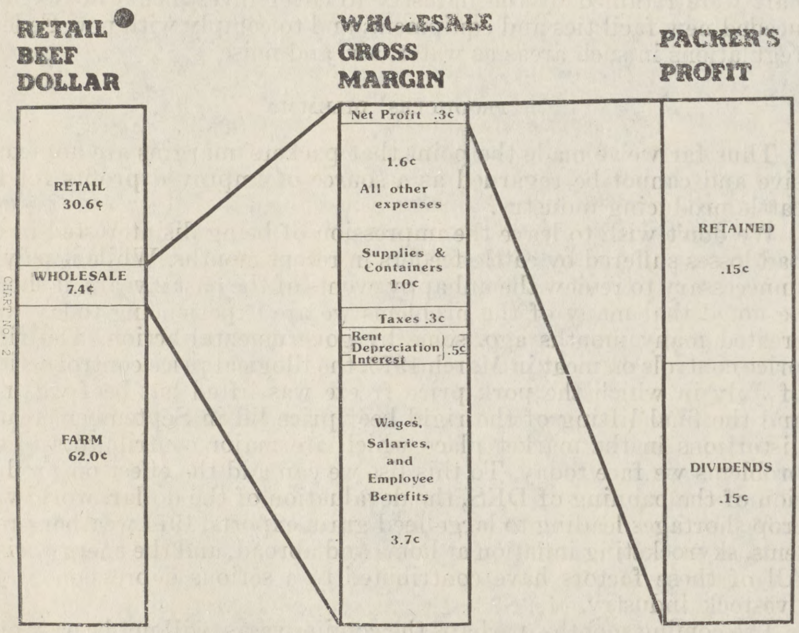


CHART No. 2

Mr. VIGORITO. Mr. Sisk? Mr. Poage?

Mr. POAGE. No questions.

Mr. VIGORITO. Mr. Sisk?

Mr. SISK. Mr. Chairman, in view of the time, I think I will cut it short.

I was trying to see those charts over there, but my eyesight isn't that good. Actually what the chart, as I understand it, demonstrates is that you are using an average, but it seems to me those figures fluctuate pretty broadly.

When I look at the charts furnished earlier today, I have difficulty in trying to get them to coincide with this particular chart.

And I am not aiming any criticism at the processor or the so-called wholesale area, but it seems to me that that breakdown is certainly pretty flexible, if I can use that word. I think that is not an understatement?

Mr. LYNG. Well, there is no question but on a daily basis and even perhaps hourly basis there will be some rather wide swings in margins, but you can also understand that everyone in an industry has to work on averages a bit. I think that going back to the chart you are referring to, Mr. Sisk, that Mr. Ahalt testified to showing farm retail spreads and farm carcass spreads by month, when you look at that, most of those are taken in dollars and cents of this composite carcass and the only percentage figure that is given is the farmers' share.

I think that while it is shown that the dollar and cents spread from the farmer to retail has gone up in dollars and cents, the fact is with very few exceptions, like the 3 months of price control, that the percentage of retail dollar that the farmer has received has gone up and the percentage of the retail dollar——

Mr. SISK. No; wait a minute. Pardon me, but I am having difficulty following you. Your chart here, which is the first chart you showed, is basically over the period of course of 1973, correct? I assume it is 1972–73 and shortly into 1974.

I am concerned about what has been happening this year, in other words, with a comparison of February against June, as against September. It just doesn't quite coincide, it seems to me.

I am not questioning your figures, because your charts are not on a month-by-month basis, so you can't tell anything particularly from that chart. But the thing I am concerned about is that actually instead of substantial drops to the producers we are still today in Washington, at least on the basis of the figures we have been discussing, paying more for meat today than we were in February, using the rule of average here on these five particular cuts.

So this of course is the problem I think this committee is confronted with in connection with the whole marketing process; you know, why that exists.

Again, I am not trying to say that this is because of a ripoff by the so-called middleman or the processor. We are, of course, just seeking to know why it exists.

In fact, I agree with you that prices basically over a period of years do follow up and down to a certain extent, but they haven't been doing that, or at least certainly they haven't done it this year, if the charts submitted by Mr. McMillan are correct.

Mr. LYNG. Well, Mr. Sisk, I think that we have this problem of lag. We have the problem of particularly the lag that appears exaggerated in the statistics, because if you take a 2-week lag between the producer price and the retail price, and if you take the statistics of the two at the same time, you are going to see great changes in this.

I suspect if we were to take the statistics on a daily basis and build in a lag figure, we might be able to correlate this a little better. But, it is also true in each one of these segments, if we were to divide it—and it isn't really quite as simple as just saying that there are three sections: the producer, the wholesaler and the retailer—but assuming that, within each one of these you have an independent market to a certain extent.

You have the vagaries of consumer use. For instance, if you get an unusually cold or wet period, you have less barbecuing and you have less demand for hind quarters and steaks and ground meat and more for something else.

Secondly you have a movement on the local markets on ground meat or steaks that will distort statistics for the moment. This is not to try to analyze what causes these strange things at the retail level. I prefer to allow the retailers to speak to that, but it is true, I think, that there is some justification for some lags in both directions and I think there is a danger in an overdependence on a cold analysis of statistics in this manner.

But even using the statisics, on the long term we see that they do come together.

Mr. Sisk. Mr. Chairman, I feel, since we are out of time, that is all I have.

Mr. Vigorito. Mr. Denholm?

Mr. Denholm. May I ask of the Chair, if we are to reconvene after lunch?

Mr. Vigorito. I wasn't planning on it. I have a conference to attend on the strip mining bill. You can get a question or two in now.

Mr. Denholm. Thank you.

Mr. Lyng, I appreciate your appearance before the committee because you are one man in the United States with experience and who well knows the circumstances involved in this phenomena better than most of us. You were previously employed with the U.S. Department of Agriculture, weren't you?

And during that time you did your work in such a way as to represent the public interest, didn't you?

Mr. Lyng. Yes; that was my effort, Mr. Denholm.

Mr. Denholm. At the present time you are employed in the private sector. Now, it is not my purpose and I can't speak for other members of the committee, but I believe it is not the purpose of the whole committee to invade the private business or the privacy of any person or persons in these hearings.

We are trying to find out what is happening in the domestic marketing system. I respect your present position and that you have a different duty to act than you did when you were an employee of the Federal Government and a duty to act in the public interest.

But, it seems to me that we cannot obtain the truth of what is happening within the industry—and I am not sure we should or can in this public forum. The nature of our procedures are different than an investigation by the Federal Trade Commission or by the antitrust Division of the Department of Justice. However, the problem is that producers can't wait years for an investigation and litigation in these matters and it is not in the national interest for the Congress to "do nothing" in these times of near crisis in the marketing system.

Now, do you agree that we should seek the truth and search for solutions to these problems?

Mr. Lyng. I certainly do, Mr. Denholm, and we welcome the opportunity at any time to testify or to supply information to the consumer to help in achieving that goal.

Mr. DENHOLM. Do you have any suggestions as to whom this committee can rely upon for the truth?

Mr. LYNG. I would think that you have named the agencies that are involved. Of course, you didn't name the USDA, but you've had, I thought, excellent testimony today from Dr. Ahalt.

We have a huge and simultaneous action going on and we have a tendency, in struggling to get at the truth, Mr. Denholm, to try to penetrate this puzzle with tools that really aren't designed to accomplish it. We don't have the kind of X-ray machine that will look in and get it all at once, no matter how much we try.

I think we are actually getting some changes in the traditional markets in this country, which no one really understands and we won't know what they are for a few years. This is causing some of the distress that producers have.

But these things are not new. They have happened before.

I think it is entirely proper to see if there is some conspiracy or some violation going on. I am of the opinion that very little of that is the cause of the producers' plight, but I do believe that we are in a situation where consumer income is pressed very hard because of a number of things.

We have an economy that is not expanding. We have tremendously high input costs on the part of the producers. This is an unhappy and disastrous situation for producers for which I am afraid there is no immediate solution regardless of what this committee might do.

Mr. DENHOLM. That is probably correct, but if we permit the natural economic phenomena to develop anticipated results of economic disaster to the livestock industry—do you agree that such a result is not desirable in the national interest?

Mr. LYNG. No, I don't think we would agree that we should interfere with natural economic phenomena. In the long run——

Mr. DENHOLM. Excuse me, but the question is can we afford to assume the natural consequences of noninterference with the economy of the livestock industry under the present circumstances? Do you agree that in the long run there will likely be a shortage of choice to prime beef in America?

Mr. LYNG. I suspect that that could well be the result of this situation.

Mr. DENHOLM. Do you agree that consumers will not knowingly and willingly pay the price level equal to the cost of choice graded beef for a standard grade of good?

Mr. LYNG. I am convinced that consumers will not be happy paying high prices for meat. They are not very happy paying prices today, prices which are not bringing adequate prices to the producer.

Mr. DENHOLM. Mr. Lying, why doesn't the price paid by consumers decrease when farmers are selling cattle that are not finished to the choice and prime standard of grading?

Now, I may be wrong and a reduction in price to consumers may not necessarily increase demand, but I think it would. I don't believe it helps to tell people to eat fish when there are more cattle in this country than the market system can readily absorb in an acceptable and orderly procedure.

Do you agree with that?

Mr. LYNG. I am certainly not in favor of urging people to eat fish.

Mr. DENHOLM. I don't know much about the fish market, but if there are too many fish in the sea, they can remain there without cost.

We have a different situation in the cost of production and marketing of too many cattle. It is costing money to feed, keep, and market cattle.

Now, we can leave the fish in the sea and urge the people to eat meat? One way to do that is to decrease the consumer price and increase consumer demand.

Now, why can't that natural economic principle work at the present time? What is it in the market structure that is precluding it from working?

Ordinarily when you have an oversupply and demand is constant the price will decrease, won't it?

Mr. LYNG. Yes, and I would suggest that the charts that I have submitted and the testimony indicates that this is precisely what has happened, but no in every particular instance or as quickly as we might wish.

The fact remains that every time this year that the price of meat moved up to a level where it began to bring a reasonable return to the producers, there was a substantial reluctance on the part of the consumers to buy. The price of meat is set at a level to clear the market. We have had consumer resistance several times this year, much to the distress of both producers and wholesalers.

Mr. DENHOLM. If that was true, why did the cold storage warehousing on red meats increase and how does it compare now with what it was when we had our last hearings last summer?

The amount of beef, pork, and poultry in cold storage was exceedingly high and that was depressing the producers' market and reducing the packers' demand for kill and it kept the prices to consumers high and the prices received by producers low—didn't it?

Mr. LYNG. As you know, Mr. Denholm, I vigorously challenged your accusations in that regard, and I still disagree with your premise. I would be delighted to submit for the record, Mr. Chairman, another analysis of the reasons for the accumulation of cold storage stocks at a time when we were getting a backup in the sales and the fact that we did get a reduction in them, and I would be delighted to submit that for the record.

Mr. VIGORITO. You may submit that, and that will be inserted in the record.

[The information referred to had not been received at the time of printing.]

Mr. DENHOLM. I assure you, Mr. Chairman, Mr. Lyng made a very logical and reasonable explanation, but——

Mr. VIGORITO. I am afraid now we have to adjourn for the day.

The committee will reconvene at 10 a.m., October 8, and again I wish to state that the four chains, namely, Giant, Safeway, Kroger, and A. & P., will be given notification to appear on Tuesday. They will be invited to appear. If they don't want to appear, then they will be subpenaed to appear.

The committee is adjourned.

[Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene at 10 a.m., Tuesday, October 8, 1974.]

RISING COST OF MEAT

TUESDAY, OCTOBER 8, 1974

House of Representatives,
Subcommittee on Domestic Marketing and
Consumer Relations of the Committee on Agriculture,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1301, Longworth House Office Building, Hon. Joseph P. Vigorito (chairman of the subcommittee) presiding.

Present: Representatives Vigorito, Denholm, and Goodling.

Also present: Representatives Poage (chairman of the full committee), Jones of Tennessee, Zwach, and Sebelius.

Also present: Steve Pringle, staff assistant; Steven Allen, staff consultant; Katherine Wulff, staff assistant.

Mr. Vigorito. The Subcommittee on Domestic Marketing and Consumer Relations is now in session for further hearing on meat prices. When we recessed the other day, I made the statement that I would reinvite the supermarkets to appear with the understanding that if they did not honor that invitation, that the third invitation would be a summons. As of now I have not received a reply. To be fair, I did not expect a reply this quick. We will continue the hearing about November 19, after the recess. I assume that we will be in session. It is virtually a certainty that we will be in session on November 19, and for another month after that.

Our first witness today is Mr. John G. Mohay, executive vice president, National Independent Meat Packers Association, Washington, D.C., and he is accompanied by John Dunning.

STATEMENT OF JOHN G. MOHAY, EXECUTIVE VICE PRESIDENT, NATIONAL INDEPENDENT MEAT PACKERS ASSOCIATION; ACCOMPANIED BY JOHN DUNNING

Mr. Mohay. Mr. Chairman and gentlemen of the committee, I want to thank you for giving us the opportunity to tell you about the meatpackers role in the production and distribution of meat in the United States and to illustrate our efforts in providing the American consumer with relatively low-cost beef.

My name is John Mohay and I am executive vice president of the National Independent Meat Packers Association. Accompanying me today is Mr. John Dunning, director of Government relations for NIMPA.

The National Independent Meat Packers Association is a voluntary organization of meatpackers throughout the United States, a substantial portion of which are engaged in the processing of beef. Our members account for approximately 65 percent of the total beef production in the United States.

We will confine most of our remarks to beef, since that is where the primary concern appears to be centered.

Mr. Chairman, we in NIMPA are as concerned about the supply, demand, and price of beef as anyone in this room. In fact, we may be the most concerned. We have millions of dollars invested in production facilities and thousands of employees whose livelihood depends upon adequate beef supplies. In June 1973 we expressed to the Cost of Living Council our concern about the supply and price of beef. Indeed, as long ago as September 1971 we sounded a warning of what might happen to the beef industry if the normal forces of supply and demand were disrupted by administrative fiat. Either we were not heard or we were ignored.

The cattlemen's dilemma as a result of price and cost trends has put producers and feeders in an unprofitable situation. High feed costs coupled with the high cost of money has hit the beef producing industry at a time when cattle supplies are at an all-time peak. As a result, herds are being reduced, slaughter is increasing and cattle prices are under pressure. At the same time, the same inflationary forces affecting the cattlemen are also affecting the production and marketing segments of our industry.

During recent decades, and the last one in particular, we have made tremendous strides in mechanization and automation to increase the productivity level of this industry which helps to keep the price of meat within the reach of the consumer. Despite our heavy investments in new plants, new equipment, and new technology, we have not increased our margins. In fact, our share of the consumer meat dollar spent for beef has remained between 7 and 9 cents since 1960 even though we have been and are providing more services.

Table 1 shows a breakdown of the retail price per dollar spent by consumers for beef since 1960. The total marketing spread runs from 34 to 38 cents with some months as high as 41 cents and as low as 32 cents. The packers' share varies between 6 and 9 cents and has fluctuated between 7 and 9 cents during the first 9 months of this year.

When we examine the cost-and-profit elements that comprise the marketing bill it is evident that the same inflationary forces are at work in our industry. For example, direct labor costs in this industry have gone up 66 percent in the decade prior to 1973, and have risen an additional 7 percent per year since 1973. During the same 10-year spread, 1963 to 1973, boxes and packaging costs have risen 29 percent; energy costs have increased 40 percent; and transportation costs have escalated 49 percent. These four items account for three-fourths of the packers' total marketing spread as determined by the U.S. Department of Agriculture.

Table 2 shows packer profits as a percentage of sales which has remained at the 1-percent level since 1966. Indeed, the profits of this industry as a percentage of sales are 50 percent lower than the average for all food manufacturing concerns, and are only about 25 percent of the net profit percentages earned by all manufacturing industries. To be more specific, the net profits of five of our largest beef packer members averaged $^{96}/_{100}$ cents per dollar of sales for the first quarter of 1974, and averaged $^{37}/_{100}$ cents per dollar of sales for the second quarter of 1974. In other words, we made just under 1 cent per dollar of sales for the first quarter and less than a half cent per sales dollar in the second quarter of 1974. These figures were compiled from Moody's Industrial Manual, and though the reports for the third quarter of this year are not yet available, I can assure you they will be even lower.

I believe you will have to agree, Mr. Chairman, beef packers have gone the extra step, and a little more, to keep beef prices in line with cattle prices. We thank you for the opportunity to present the beef packers situation.

Table 1

CHOICE BEEF -- Breakdown of Retail Price Per Dollar Spent by Consumers

CHOICE BEEF	FARM SHARE PER DOLLAR SPENT BY CONSUMER	TOTAL MARKETING COST PER DOLLAR SPENT BY CONSUMER	RETAILERS SHARE	PACKERS SHARE
1960	65¢	35¢	26¢	9¢
1965	65¢	35¢	27¢	8¢
1967-69 Average	65¢	35¢	28¢	7¢
1970	62¢	38¢	31¢	7¢
1971	65¢	35¢	28¢	7¢
1972	64¢	36¢	29¢	7¢
1973	66¢	34¢	28¢	6¢
1973:				
January-March	68¢	32¢	28¢	6¢
April-June	68¢	32¢	27¢	5¢
July-September	70¢	30¢	25¢	5¢
October-December	60¢	40¢	32¢	8¢
1974:				
January	68¢	32¢	25¢	7¢
February	64¢	37¢	28¢	9¢
March	60¢	40¢	33¢	7¢
April	62¢	38¢	30¢	8¢
May	62¢	38¢	29¢	9¢
June	59¢	41¢	32¢	9¢
July	66¢	34¢	25¢	9¢
August	68¢	32¢	25¢	7¢
September-3 weeks only	61¢	39¢	31¢	8¢

Source: "Marketing & Transportation Situation"
U. S. Department of Agriculture

Table 2.--Profit ratios (after Federal income taxes) of all manufacturing, manufacturers of food, textiles, apparel and 15 retail food chains, annual 1960-73, quarterly 1972-74 1/

Year and quarter	Food Manufacturers: Total 2/	Food Manufacturers: Dairy	Food Manufacturers: Bakery	Food Manufacturers: Meat-packers 3/	Textile-mill products	Apparel and other finished products	All manufacturing industries	15 retail food chains 3/
	Profits as percentage of stockholder equity							
1960	9.2	---	---	---	5.8	7.7	9.3	13.0
1961	9.4	---	---	---	5.0	7.3	8.9	12.0
1962	9.2	---	9.2	---	6.2	9.3	9.8	11.7
1963	9.3	8.6	9.4	---	6.1	7.7	10.3	11.4
1964	10.4	9.5	9.1	---	8.6	11.9	11.7	11.5
1965	11.0	10.7	9.2	---	10.9	12.8	13.1	11.3
1966	11.5	11.4	10.9	7.1	10.3	13.8	13.6	11.4
1967	11.1	10.3	12.2	11.5	7.6	12.2	11.8	10.3
1968	10.9	9.8	11.9	10.2	8.8	13.0	12.2	10.3
1969	11.0	10.1	8.6	8.8	7.9	11.9	11.5	10.4
1970	10.9	10.2	8.8	8.7	5.1	9.3	9.3	10.6
1971	11.1	11.1	10.7	10.8	6.7	11.2	9.7	10.1
1972	11.3	10.1	10.6	9.1	7.5	12.0	10.6	5.1
1973	12.8	10.8	5.8	11.2	9.0	10.8	12.6	7.6
1972								
January-March	10.1	10.0	11.3	---	6.4	10.9	9.5	---
April-June	11.7	11.1	11.3	---	7.3	9.3	1.3	---
July-September	10.9	10.0	10.4	---	7.3	12.4	10.1	---
October-December	11.7	9.6	9.6	---	9.0	15.1	11.5	---
1973								
January-March	11.2	9.6	8.1	---	8.4	8.0	11.6	---
April-June	12.5	11.1	5.0	---	11.1	14.6	14.0	---
July-September	13.7	12.7	1.4	---	8.6	6.3	12.3	---
October-December	15.2	9.6	8.6	---	7.9	14.3	13.4	---
	Profits as a percentage of sales							
1960	2.2	---	---	---	2.5	1.4	4.4	1.3
1961	2.2	---	---		2.1	1.3	4.3	1.2
1962	2.2	---	2.3	---	2.4	1.6	4.5	1.2
1963	2.2	1.9	2.2	---	2.3	1.4	4.7	1.2
1964	2.5	2.3	2.2	---	3.1	2.1	5.2	1.3
1965	2.6	2.5	2.1	---	3.8	2.3	5.6	1.2
1966	2.5	2.5	2.3	.9	3.6	2.4	5.6	1.2
1967	2.4	2.4	2.6	1.4	2.9	2.3	5.0	1.1
1968	2.4	2.3	2.6	1.2	3.1	2.4	5.1	1.1
1969	2.4	2.2	1.9	1.2	2.9	2.3	4.8	1.1
1970	2.3	2.1	1.9	.9	1.9	1.9	4.0	1.1
1971	2.4	2.3	2.3	1.3	2.4	2.4	4.1	.9
1972	2.4	2.0	2.2	1.0	2.6	2.4	4.3	.5
1973	2.5	2.0	1.1	1.1	2.8	2.0	4.7	.7
1972								
January-March	2.2	1.9	2.4	1.0	2.3	2.3	4.0	1.1
April-June	2.5	2.1	2.4	0.8	2.5	2.0	4.5	.4
July-September	2.3	2.0	2.2	0.9	2.6	2.3	4.2	.1
October-December	2.4	1.9	2.0	1.2	2.8	2.7	4.4	.8
1973								
January-March	2.2	1.9	1.6	1.0	2.8	1.6	4.5	0.4
April-June	2.4	2.0	1.0	.9	3.4	2.8	5.1	0.7
July-September	2.5	2.3	.3	1.0	2.8	1.2	4.6	0.4
October-December	2.7	1.7	1.4	1.7	2.4	2.6	4.7	1.0
1974								
January-March	---	---	---	1.4	---	---	---	0.9

1/ Compiled from Quarterly Financial Report for Manufacturing Corporations published by the Federal Trade Commission and Securities and Exchange Commission. 2/ Food and kindred products excluding alcoholic beverages. 3/ Compiled from Moody's Industrial Manual. Data for 1973 and 1974 are preliminary.

Mr. VIGORITO. Thank you very much, Mr. Mohay. That was a nice, concise statement with figures and percentages. That is what I like to see.

How many members are in your organization?

Mr. MOHAY. Meatpacker members we have just under 300.

Mr. VIGORITO. 300.

Mr. MOHAY. Yes, sir.

Mr. VIGORITO. Why do you have the word "Independent Meat Packers" in your title?

Mr. MOHAY. When we were organized close to 35 years ago, sir, our organization was formed by packers other than large national packers, and we have altered that somewhat over the years, but we are still very independent thinkers and still do not have the former National Packers in our packer organization.

Mr. VIGORITO. You have 300 or more members now. How many members did you have to start with?

Do you remember?

Mr. MOHAY. No, sir.

Mr. VIGORITO. What I would like to know is the trend in the meatpacking industry. If I am not mistaken, the meatpackers were being scattered around the country instead of concentrated in a couple of areas in the country like Chicago and Omaha, and also that your percentage, 65 percent of total beef production, I am just wondering whether that is increasing over the years.

Mr. MOHAY. You are right, sir, in that there is not any consolidation of meatpackers today such as there was 20 or 30 years ago. Chicago and Omaha are not necessarily the meatpacking centers that they once were. Your slaughtering industries have dispersed through the livestock growing and producing and feeding areas.

The production is in different hands today than it was 20 years ago. Our membership has grown substantially as concerning percentage of production in the last 10 years.

Mr. VIGORITO. Congressman Goodling, do you have any questions?

Mr. GOODLING. Yes, Mr. Chairman.

You use the word "processing." What is involved?

What do you mean when you say processing?

I have some general idea, of course, but I would like to hear how you define processing. What does processing involve?

Mr. MOHAY. Beef processing.

Mr. GOODLING. Yes.

Mr. MOHAY. Slaughtering, breaking, boxing of cattle.

Mr. GOODLING. You do your own slaughtering, your independent members do their own slaughtering?

Mr. MOHAY. Yes, sir.

They fabricate the cattle, break it into prime cuts, and box it or bone it and box it.

Mr. GOODLING. How does beef consumption today compare with consumption a year ago or 6 months ago? Has there been any notable change?

Mr. DUNNING. Beef consumption in 1972 reached a high of about 116 pounds per capita in this country. In 1973 that dropped to somewhere about 109 pounds, 109, 110 pounds, something in that area. This year, on the basis of the slaughter, particularly in the last 5 or 6 weeks, it looks like we are going to end up the year right back up to 116 pounds per capita.

Mr. GOODLING. In spite of what some people call high meat prices, they are still eating a lot of beef.

Mr. DUNNING. It is apparently true, yes.

Mr. GOODLING. To whom do your packers sell? What type of stores do you sell to?

Mr. MOHAY. We will sell to chain stores and to wholesalers. Basically those are our two major customers for the larger beef packing companies.

Mr. GOODLING. Has your price to the people you sell, fluctuated with the price of a fat steer?

Mr. MOHAY. It has fluctuated dramatically, Mr. Goodling. In fact, we did not bring the charts with us because they were pretty amply displayed last week at the hearing, but our prices have followed very closely livestock prices up and down.

Mr. GOODLING. As I recall not too long ago you were paying 55 cents, and all of a sudden cattle prices dropped to 37 cents and possibly lower.

Mr. MOHAY. Yes, sir, and we were geting $74 a hundred-weight for our cattle and beef at that time, and the prices dropped down to 63 cents, and as low as 59 cents at the low point in cattle prices.

Mr. GOODLING. The thing we are trying to find out is if there is too much spread between what the producer receives and what the consumer pays.

Do you agree or not agree that there is too big a spread?

Mr. MOHAY. The only position that we are in to answer that is that there is not too much spread between what we pay for cattle and what we sell it for. Our profit picture proves that. We have fluctuated between a profitabe situation and a loss situation for the last 12 months, as the figures in the back of my statement, the charts, table 1 shows, in our share of the market over the past 10 years, particularly over the past 1974. Everywhere where you can see 7 cents as our share of the market, we are losing money. When you get to 8 cents, we are at a break even point. When you get to 9 cents you will see we are making a little money, and we have been losing or breaking even as much as we have been making money during this year.

Mr. GOODLING. Have the prices that the retailers asked upgraded with your prices?

Mr. MOHAY. They fluctuate. I do not know to what extent, sir. We have our hands full running our own industry. We have concentrated on that.

Mr. GOODLING. I have stated over and over, and all of us on this committee agree that under our free enterprise system we want everybody to make a profit. You are not going to survive if you do not make a profit. But this committee, at least most of us, and I think probably all of us, believe that somewhere along the line somebody is making too much profit. That is what we are trying to determine here this morning.

Mr. MOHAY. We can assure you it is not us, sir. The figures bear us out.

Mr. VIGORITO. Mr. Chairman, Mr. Poage, do you have a question?

Mr. POAGE. Thank you, Mr. Chairman.

I am just sitting in.

Mr. VIGORITO. Mr. Denholm.

Mr. DENHOLM. Thank you, Mr. Chairman.

Are you the executive vice president of the Independent National Packers?

Mr. MOHAY. Yes, sir.

Mr. DENHOLM. What is your responsibility?

What do you do in that position?

Mr. MOHAY. Presently we represent them before congressional committees, we represent them before the Department of Agriculture when regulations are under consideration. We meet with them to help improve management techniques, provide programs of that nature. We report trends to the membership, similar things to that.

Mr. DENHOLM. Did you prepare the statement that you have entered of record?

Mr. MOHAY. Our office did, my associate and I; yes.

Mr. DENHOLM. What is Mr. Dunning's position?

Mr. MOHAY. He represents primarily the beef segment of our association, the beef membership of our association. He provides them with helpful information and keeps the statistics on the industry, and compiles data for testimony such as this.

Mr. DENHOLM. Where did you obtain the data for this statement?

Mr. DUNNING. The tables at the back of the statement are from the Department of Agriculture Information Marketing and Transportation Situation. That is where we gathered our data.

Mr. DENHOLM. Did you gather all of the information at the Department of Agriculture? Is that your answer?

Mr. DUNNING. Yes.

Mr. DENHOLM. Does this information reflect anything from the computation of figures from your members?

Mr. DUNNING. Not any individual members other than the profit figures Mr. Mohay referred to at the end of his statement where we took five of our largest feed packer members.

Mr. DENHOLM. We are interested in verifying facts of the industry and not what the Department of Agriculture has reported. We have their testimony. I thought you represented some packers and that you had pertinent information from packers and the industry.

Mr. DUNNING. I think that is what that information represents.

Mr. DENHOLM. Are you here to testify for the Department of Agriculture or for the Independent Packers of the United States?

Mr. MOHAY. Mr. Denholm, the Department of Agriculture is the best information gathering information service in the United States.

Mr. DENHOLM. Is it more reliable than you have in the trade association?

Mr. MOHAY. Most of the information supplied by the Department of Agriculture is required by law, and we can get a broader base from it, and get it quicker and faster than through our own sources.

Mr. DENHOLM. Quite frankly, I am not interested in a replay of what we already know from the Department of Agriculture. You came here to testify, to represent the independent packers of the industry and you are simply referring to statistics that tell us nothing. I never specialized in accounting, although I have studied accounting, and I quite frankly think your statement is of little value. We have the same information from the Department of Agriculture. I do not concur with the chairman. I have no more knowledge of the industry now than I had before you came.

Mr. MOHAY. Well, sir——

Mr. DENHOLM. Will you tell us something about the industry?

Mr. MOHAY. There is not much else we can tell you, sir. That pretty much tells the whole story. We gave you our profit situation, our cost situation. Regardless of what source we get it from, it still all comes out the same.

Mr. DENHOLM. I am not satisfied with it. Your comment, for instance, is in reference to direct labor costs—you claim an industry increase of 66 percent in the decade prior to 1973. And an additional 7 percent increase for calendar year 1973?

That is not new to us. We do not expect the industry to hire people at the labor level of 1960. What was the 1960 rate per hour for labor?

Mr. MOHAY. Just over $2 an hour, if I am not mistaken, if my memory holds correctly.

Mr. DENHOLM. You testified that it increased 66 percent. You must know the 1960 level in support of your statement.

Mr. DUNNING. In 1963, the average hourly earnings in this industry was $2.82. In 1973, they were $4.68.

Mr. DENHOLM. You go on to say, from 1963 to 1973, packing boxes and packing costs have gone up 29 percent.

What were your packing costs and box costs in 1963?

Mr. DUNNING. I do not have any figures as to what the boxes actually cost in 1963. Again we are using the information that the Department compiles, and just reporting the increases or decreases as they show them to be. We do not keep track of those figures.

Mr. DENHOLM. Is it your testimony that your members do not make that information available to you?

Mr. DUNNING. They do not make it available to us. I am not even sure that they could go back and dig it out. They could tell you how much they paid for boxes the last time they bought some; yes.

Mr. DENHOLM. Do you know whether the statistical data that you have testified to are correct?

Mr. DUNNING. I have every reason to believe they are correct.

Mr. DENHOLM. Why do you have reason to believe the data if you have no personal knowledge of the reliability thereof?

Mr. DUNNING. Simply because I have great respect for the information gathering services of the Department.

Mr. DENHOLM. What section of the Department of Agriculture gathers that information?

Mr. DUNNING. Economic Research Service. The livestock information is probably gathered from the Statistical Reporting Service. The cost data is gathered by the Economic Research Service.

Mr. DENHOLM. Is that the same information that Mr. Ahalt testified to last week?

Mr. DUNNING. Yes, it is under his department.

Mr. DENHOLM. He testified that the profits of the industry have doubled in the same period of time.

Mr. DUNNING. Would you repeat that, please?

Mr. DENHOLM. How do you explain the testimony of Mr. Ahalt that profits have increased from 0.4 to 0.9 in the industry?

Mr. DUNNING. I cannot handle that. I have no information that indicates that. We simply went to Moody's and gathered up the profit figures they report, and we accept Moody's as a reliable reporting service. This is public information that is released by all corporations, and they do not show the same thing.

Mr. DENHOLM. Who are we to believe? You are reporting different statistic data, and you say you copied the USDA's reports and made these findings. You, Mr. Ahalt, testified, and I think that I am correct, that profits were at 0.4, 0.7, and now 0.9 percent of sales.

Mr. MOHAY. His figures could be absolutely right, and ours could be absolutely right. We do not have a constant line of profits. This is an industry that fluctuates violently in cost and in profit. So we may have been making 14 cents a dollar in 1960, as we did several years before that, and as we are doing right at this very moment, and we could very well, and the fact is, I believe we even reported in our statement we made 0.9 cents on sales dollar earlier this year. It fluctuates all over.

Those 2 years that he suggested, they may have shown just that.

Mr. DENHOLM. I am doubtful that you are qualified to testify at all. You have simply given us information that was obviously taken from the records of the USDA and now reported it in percentages and you conclude that the industry is not operating at an acceptable profit—or at least at an unreasonably large profit margin.

Mr. MOHAY. Plus Moody's Industrials, it reports the profits in the industry.

Mr. DENHOLM. Are you a statistician or an economist?

Mr. MOHAY. My degree from college, I guess, would put me into an economist status. I do not claim to be one.

Mr. DENHOLM. What do statistics indicate in reported averages?

Mr. MOHAY. Statistics, when you strike averages, can tell you a lot or they can tell you nothing.

Mr. DENHOLM. What do such statistics tell you?

Mr. MOHAY. I do not rely on averages across the board on all things. In some areas, averages may be all right. In some areas, not.

Mr. DENHOLM. What have you reported here?

Mr. MOHAY. We have given you as good a picture of our industry and our relationship to the total sales, or dollars spent by consumers and our percentages of it that is available.

Mr. DENHOLM. Are they based on averages?

Mr. DUNNING. They are based on the industry averages.

Mr. MOHAY. Industry figures.

Mr. DENHOLM. Do the statistics that you have reported indicate the profit, when the live weight of cattle decrease $4 per hundredweight in 1 day?

Mr. MOHAY. We do not have any way of reporting on a day-to-day basis.

Mr. DENHOLM. What does happen to profits of packers when live weight prices paid increase $3 per hundredweight one day and the following day decrease $4 per hundredweight in the trade?

Mr. MOHAY. We would probably take a pretty healthy beating.

Mr. DENHOLM. Does the industry profits decrease when cattle prices paid increase?

Mr. MOHAY. Initially, yes, until we can catch up.

Mr. DENHOLM. What happens when live weight prices decrease $4 a day?

Mr. MOHAY. It depends, if we bought ahead, we are not getting a darn thing. If we are buying close, we may be able to make a dollar or two.

Mr. DENHOLM. What do your books show as a result thereof?

Mr. MOHAY. The books show we are not doing a very good job.

Mr. DENHOLM. What makes the market behave like that?

Mr. MOHAY. I think we would like to know.

Mr. DENHOLM. What happens to the retail or wholesale price when the live weight fluctuates in a chaotic market?

Mr. MOHAY. What happens to the wholesaler or the consumer?

Mr. DENHOLM. The wholesaler and retailer—do those markets decrease and increase in the same way?

Mr. MOHAY. I do not think we are in a position to say that. We do not represent either the wholesalers or the retailers.

Mr. DENHOLM. Do you represent packers?

Mr. MOHAY. Yes, sir.

Mr. DENHOLM. Do you sell to wholesalers?

Mr. MOHAY. Our membership does, yes.

Mr. DENHOLM. Do their prices fluctuate up and down in the same way as experienced by the producers?

Mr. MOHAY. Yes.

Mr. DENHOLM. Do they fluctuate in the same manner?

Mr. MOHAY. They will fluctuate. In fact, we have some figures to show they fluctuate as much as 7 cents a pound within a week's period of time.

Mr. DENHOLM. Is it within your knowledge that consumers retail price fluctuates correspondingly?

Mr. MOHAY. It is not within my knowledge, I do not believe sir. The way cattle is broken down and the way the meat is sold, I do not know if anyone could determine that.

Mr. DENHOLM. Are we dealing with a subject matter here that has no answers?

Mr. MOHAY. We can only talk about our part of the industry, Mr. Denholm. Retailers could answer your questions from the retail end. I am sure the cattlemen could expalin their area.

Mr. DENHOLM. Are you familiar with the cold storage warehousing of beef?

Mr. MOHAY. Yes.

Mr. DENHOLM. What is the situation on that now? Is it increasing or decreasing?

Mr. MOHAY. Decreasing.

Mr. DENHOLM. Can you cite points in time as to the decrease?

Mr. DUNNING. I have some figures here on the frozen boneless beef that is in the freezer. I went back to August 31 of 1973, and then reported the figures for December 31, March 31 of this year, and August 31 of this year, and we go back to August 31 of 1973. We had 211 million pounds in the freezer. On December 31 we had 355 million pounds in the freezer. March 31 of this year went up to 391 million pounds. On August 31, which is the last report available, it went down to 316 million pounds.

Now, just to provide some perspective to those numbers, between August and December of last year it went up 68 percent. Between December and March it went up another 10 percent. And between March and August it went down 19 percent.

Mr. DENHOLM. When the cold storage warehousing of beef increases, does that tend to reduce the kill demand at the packer level?

Mr. DUNNING. This beef in the freezer is lean, boneless beef, some of it imported from other countries, Australia, New Zealand, Ireland. The rest of it is domestic beef trimmings that is used as manufactured materials, used in sausage.

Mr. DENHOLM. Can you tell me why the industry imports meat and delivers that meat to cold storage warehousing when there is more product than can be sold on the domestic market?

Mr. DUNNING. Let me throw some price information into this. I do not have a price for August 31, but for December 31, 1973, the price of this imported meat was 94 cents a pound. The price on August 31 was 67 cents a pound, and the price on September 30 of this year was 62 cents a pound.

Mr. DENHOLM. Is it reasonable to conclude from those figures that you blend that with domestic produced beef and sell the cheaper acquired imported meat at a higher price, with the blend of the domestic produced beef at the higher market price level?

Mr. DUNNING. We blend it with domestic beef, yes, in producing sausage material, yes.

Mr. DENHOLM. You sell it at the domestic price level?

Mr. DUNNING. It goes in at the market rate.

Mr. DENHOLM. Is that why we continue to import beef?

Mr. MOHAY. We import beef because we do not produce enough for our own needs, Mr. Chairman.

Mr. DENHOLM. What?

Mr. MOHAY. We do not produce enough for our own needs.

Mr. DENHOLM. Will you say that again? I do not understand.

Mr. MOHAY. We do not produce enough lean meat in the United States for our own bologna meats. We produce a lot of fat cattle and we produce a certain amount of lean meat, but we do not produce enough for our own needs.

Mr. DENHOLM. How many fat cattle are available on the market now?

Mr. DUNNING. Our fat cattle slaughter runs about 400, our slaughter has been running about 630,000, somewhere in that area. Cows and bulls account for 23 percent of it. Fat cattle account for the rest of it.

Mr. DENHOLM. I thought you said somewhere in your statement that we had an oversupply.

Did you testify to that in your prepared statement?

Mr. MOHAY. Yes, head cattle, yes.

Mr. DENHOLM. Is that an oversupply of choice and prime beef?

Mr. MOHAY. The cattle normally go to choice and good cattle, yes. We do not bone that and put that in bologna.

Mr. DENHOLM. The industry does not sell just bologna.

Mr. MOHAY. I use that as a generic term, frankfurters, bologna, salami. There are hundreds of manufactured products and hamburgers.

Mr. DENHOLM. Are you familiar with the weekly reports published by the USDA now on the farm retail price level spreads?

Mr. MOHAY. Yes.

Mr. DENHOLM. What is happening to that spread? Is it increasing or decreasing?

Mr. DUNNING. It is going up and down.

Mr. DENHOLM. Now, gentlemen—you are experts in the industry. You represent 65 percent of the industry. I want to know what your testimony is for the record.

Mr. DUNNING. Let me see. I had some figures here that came in this week, and farm retail spread fluctuated between 45.7 and 57.5.

Mr. DENHOLM. Where does the chart reflect the fluctuation? Does that not indicate an increase in the last 30 days?

Mr. DUNNING. These figures are August 31 through September 21.

Mr. DENHOLM. Please explain the fluctuation. That is an outright degree of increase, is it not?

Mr. DUNNING. That is right.

Mr. DENHOLM. What do you mean by fluctuation?

Mr. DUNNING. If you would look at these figures again in the next 3 weeks, you will see that they will go down.

Mr. DENHOLM. What is to happen?

Mr. DENHOLM. The history of those figures is they have been going to go up and down all the time.

Mr. DENHOLM. The history of these figures is they have been going up all the time, is it not?

Mr. DUNNING. Going back to January of this year, the total farm retail spread on choice beef was 39.9, in February it was 42.8, in May it was 43.3, in June it was 40.9, in July it was 39.6. It goes up and down.

Mr. DENHOLM. The farm-retail price spread decreased 1 month after we exposed and jawboned the industry this summer. We had a national news conference on May 17. The packers were embarrassed and there was a slight improvement in market trends.

Mr. DUNNING. This is the total farm retail spread. It includes the packers and retailers.

Mr. DENHOLM. The tendency has been that the farm-retail price level is on the increase, is it not?

How much has it increased in the last 30 days?

Mr. DUNNING. In the last 3 weeks the total spread went from 49.9 to 57.5. The packers share of that went from 11.2 to 11.1. I think that is a slight decrease. It may be only one-tenth of 1 percent, but it is a slight decrease.

Mr. DENHOLM. How much more do you think that your profits should be increased?

Mr. DUNNING. Our profits have not increased. This is the total marketing spread. It includes all the cost factors, and it also includes the profit. This does not represent entirely the packer's profit.

Mr. DENHOLM. I understand that. I am not suggesting that packers are the sole benefactors of the spread between what consumers pay and the price levels received by producers. However, the marketing system spread is increasing.

Mr. DUNNING. I would disagree.

Mr. DENHOLM. Can you explain to me why packer's net profit margin should decrease when the farm retail price level spread is increasing?

Mr. DUNNING. Maybe I can throw some light on it this way. I have taken some cattle prices on the Omaha basis and I have taken the wholesale price of choice steers and on August 20 the market in Omaha was 48¼ cents, and 600 to 800 choice steers were selling at 72 cents. Four weeks later the cattle market fell 6 cents. It was down to 42 cents, and wholesale beef prices fell 7½ cents. It was at 64½ cents.

Mr. DENHOLM. What happened to consumer prices for the same period of time?

Mr. DUNNING. I have no idea. We do not keep track of consumer prices.

Mr. DENHOLM. Was there an increase in demand for meat during that time?

Mr. DUNNING. Apparently, and from what I know of the situation in this industry, the weekly slaughter during this period increased dramatically and we simply had a pipeline full of meat.

Mr. DENHOLM. We had that before it started. We had all that meat in cold storage warehousing that you testified to even though you argue a need for imports.

Mr. DUNNING. These are two different things we are talking here about, fed cattle, and the cold storage warehouse represents manufacturing materials that are used in sausage. They are two entirely different commodities.

Mr. DENHOLM. Are you suggesting that nothing in slaughtered fed-fat cattle is held in cold storage warehousing?

Mr. DUNNING. The hearts, the livers, the kidneys, and so on. That goes into cold storage. Those products we export.

Mr. DENHOLM. Cold storage warehousing is a typical part of your trade; is it not?

Mr. DUNNING. Certainly.

Mr. DENHOLM. Obviously.

Mr. DUNNING. Lean boneless beef in the freezer is one commodity, and choice steer, 600 to 800 pounds, is another commodity. One is table-ready meat, and the other is either manufacturing material that is used in sausage, or it is the other items that are exported and not used in this country.

Mr. DENHOLM. Is it your testimony that no table-ready meat is in cold storage warehousing?

Mr. DUNNING. Certainly there are cold storage inventories, though, but these are the primo cuts and the subprimo cuts that are prepared by what we call the purveyors, the people who serve the hotel and restaurant industry, and they are frozen, and are in the inventory constantly. They move and then they are sold in frozen form.

Mr. DENHOLM. Mr. Chairman, I am bothered about the amount of time required to find answers to simple questions.

Mr. Chairman, I am taking more time than I should and I will be glad to yield.

Mr. GOODLING. We agree, you have taken too much time, at least I do.

Mr. DENHOLM. If you feel that way I will yield. We are not obtaining testimony of value.

Mr. VIGORITO. Thank you.

Congressman Zwach, as a producer yourself you may be interested in asking a question or two.

Mr. ZWACH. Yes, Mr. Chairman. I appreciate this and I want to commend you for having these hearings.

Gentlemen, as you know, since September 1973 the beef industry has been in chaos, especially the producers, and today they are in perhaps worse shape than ever.

I saw recently profit figures on packers, and they are in my office, and I do not have them before me, but as I remember, the profits of packers were tremendously increased, in that same period of time. As I remember Missouri packers, something over 100 percent, and down the line.

Were those accurate reports? Did profits go up tremendously in the last year?

Mr. MOHAY. The percentage of some packers did go up dramatically last year but a thousand times zero is still zero. These companies were operating an exceptionally low profit area and some of them in a loss situation. Although the percentages were dramatic the actual dollars were within the industry norms. They were making right at or a little less than 1 cent on a sales dollar.

Mr. ZWACH. It is true that they are not hurting now. I would like to speak to this 1 percent of sales that you speak about. It seems to me that that has a potential of covering up a great many facts. I turn my cattle once a year and the 1 percent, I would understand, I would just assume, let's see how far I am off, that a packer turns his dollar 52 times a year, once a week, that may be a little high, a little high, but that would be a 52 percent profit on each dollar, 52 percent return on each dollar in a year. The chain stores also give themselves a percentage of the turnover. They turn more than once a week, and look at the tremendous return that they get.

I would like to see those returns on the basis of investment. That is the way I keep records on my farm, and I think we ought to have returns on the basis of investments. That is an honest way to see what profits are, what the return is on investment and on dollars. I do not know whether you have got that available.

Mr. MOHAY. First of all, sir, we do not turn our money 52 times a year.

Mr. ZWACH. How many times? Thirty times?

Mr. MOHAY. No, sir. It would be in the neighborhood possibly of 20.

Mr. ZWACH. A 20 percent return on each dollar in a year's time if you make 1 percent.

Mr. MOHAY. That would be the maximum turnover. We will not turn it quite 20 but we can use 20 as the basis.

Mr. ZWACH. Could you supply for this committee a return on investment on actual dollars?

Mr. DUNNING. We have, Mr. Congressman, if you look at table 2, attached to this statement and at the top of that page you will see profits as the percentage of stockholder equity reported for the years 1966 through 1973, and it runs between——

Mr. ZWACH. Which column?

Mr. DUNNING. Table 2 at the back of the statement in the fourth column with a box around it, profits as the percentage of stockholder equity.

Mr. ZWACH. That box column?

Mr. DUNNING. Yes.

Mr. ZWACH. That shows 1972 as 11.2 percent, right?

Mr. DUNNING. That is 1973.

Mr. ZWACH. That is 1973. That is interesting. I do not just know how that is based, but that is the way we can understand what profits are, and you are only a small segment of the beef industry and I do not think the worst segment; I think the worst is the large retailers. I think that is where the main bottleneck in my business is. Here in Washington, 85 percent of the meat is sold by four concerns who make the determination of price. I think here is the real problem.

But I do not see how you can justify a tremendous increase in profits during this time. Now how much are you modernizing? What percentage of your beef is going out boned and boxed? Is there headway in that area so that consumers and producers do not ship a lot of bones and a lot of unusuable material from Minnesota to New York to sell it?

What are you doing in this area?

Mr. DUNNING. Currently, boxed beef, I think you understand what I am talking about.

Mr. ZWACH. I know what you are talking about.

Mr. DUNNING. Boxed beef accounts for 50 percent of the beef that is sold at the retail level.

Mr. ZWACH. Have unions agreed to accept boxed beef?

Mr. DUNNING. We could make some more progress in that area in cities like St. Louis and Chicago and a number of other places around the country.

Mr. ZWACH. Have they accepted it in New York?

Mr. DUNNING. They prohibit the sale of boxed beef.

Now, they finaly accepted it in New York. But in these two cities, and particularly in many other areas of the country, it is prohibited with restrictive labor contracts.

Mr. ZWACH. How much less are you paying for cattle at the farm gate now, today or yesterday than you did in August of 1973?

Mr. DUNNING. 1973, I do not have—well, here. October 2, that was last Thursday or something like that. The top of the market on choice steers at Omaha was 41¼.

Mr. ZWACH. That is fair.

Mr. DUNNING. Yes, sir.

Mr. ZWACH. What was it in August of 1973?

Mr. DUNNING. August of 1973, it was during the period when we had custom slaughter. I cannot remember the figures. The packer was custom slaughtering cattle at that time and the cattle were being bought by the retailer himself. Probably about 55 cents. I would guess somewhere between 50 and 55 cents.

Mr. ZWACH. Approximating 60 cents.

Mr. DUNNING. It got that high, I think.

Mr. ZWACH. Cattle today are less than 41 cents.

Mr. DUNNING. Yes.

Mr. ZWACH. Ninety-nine percent are sold at much below 40 cents a pound. Are you passing back those reductions to retailers?

Mr. DUNNING. This is what I was pointing out a few moments ago. From August 20 we have had cycles like this [indicating] in the live market as you know. The wholesale beef market follows it right along from 48¼ on August 20 on cattle to 41¼ on October 2. That is 7 cents on the live market and the wholesale beef for choice steers 600–800 went from 72 and October 7, was 64, 64½, which, I believe is 8 cents or 7½ cents. It parallels right along wholesale beef.

Beef is a commodity item. Even boxed beef is a commodity item now. We hoped that would not be so but it is. Beef prices fluctuate with pretty much the live prices.

Mr. ZWACH. Would you gentlemen think that producers and consumers are going to have to pay a lot more attention to food production, processing, retailing, in the future than they have in the past?

Mr. DUNNING. You mean consumers are going to have to pay more attention?

Mr. ZWACH. And producers. They are going to have to watch the intermediary steps much closer than they are.

Mr. DUNNING. There is no question of that. We are in a very bad situation in that the break-even level to the producer people like yourselves are so high and the problem is the consumer, on the other hand, is looking for cheap food prices and lower meat prices, and it is difficult to equate the two.

Mr. ZWACH. I think the consumer would settle for good lean efficiency from the farm gate to the counter. I will admit they are looking to buy as reasonable as they can. American consumers are spoiled. There is no question. They are used to getting it subsidized.

Mr. DUNNING. The record of the last few months with this tremendous increase of slaughter and with beef consumption looking right now that it will be back 160 pounds per capita. The consumer obviously is still spending the money for beef. There is no question about it.

Mr. ZWACH. I would like to go into this further but I will yield.

Mr. VIGORITO. Thank you, Mr. Zwach.

Mr. Mohay, I just have two points that I would like to bring out right now. Your independent packers, are any of them controlled or owned by any other companies?

Mr. MOHAY. We have some companies that are part of conglomerates. I cannot think offhand of any other beef people that are owned by conglomerates.

Mr. DUNNING. None of the beef packer members are in any other business except the beef business, of our membership.

Mr. VIGORITO. Your members?

Mr. DUNNING. We are not in the ice cream business. We are not in the bus business. We are not in the fertilizer business.

Mr. VIGORITO. Some of them are owned by other companies.

Mr. MOHAY. For instance, we have a member in Mr. Zwach's area, Schweiger Meat Co. It is a processor that makes frankfurter, baloney, and processed meats, and he is owned by Green Giant Food Co.

There are situations such as that, but in the beef industry they are very individualistic and are in the meat business only, the beef business only, and have no connections.

Mr. VIGORITO. Most of your members are not owned by other companies?

Mr. MOHAY. Correct.

Mr. VIGORITO. On the other end of the scale are any of your members, are they in retail to any extent? Are they, in turn, owned retail outlets?

Mr. MOHAY. Not to my knowledge. Years ago there were a couple of packers in New York City who owned some retail outlets, but they have long since been divorced and they are two separate corporations now.

Mr. VIGORITO. I wish to thank you gentlemen for your appearance.

Mr. DENHOLM. Mr. Chairman, may I pursue your line of questioning?

Mr. VIGORITO. We have already spent 1 hour for this testimony, so please make it very brief. We still have other witnesses and I would like to finish the other witnesses because the other two witnesses are representing the consumers and I would sure like to hear what they have to say.

I yield to Congressman Denholm for a very brief question.

Mr. DENHOLM. Mr. Chairman, I thank you very much. I want the record to show that this is a matter of great national concern, and I think you and I agree that we know what the consumers will testify to in this matter. Gentlemen, do any members of your trade association participate in the feeding and finishing of livestock for market?

Mr. MOHAY. Yes, sir.

Mr. DENHOLM. How many of them and to what extent?

Mr. MOHAY. I would say perhaps 10 percent of the beef packers feed cattle in one category or another. Either they have cattle on commercial feedlots being fed out or they own a small feedlot and are feeding cattle out for their own use.

Mr. DENHOLM. I now adhere to the request and recommendation of the Chairman.

I yield.

Mr. VIGORITO. Thank you, gentlemen.

Our next witness is Mr. Mark Silbergeld, attorney, Consumers Union, Washington, D.C.

STATEMENT OF MARK SILBERGELD, ATTORNEY, CONSUMERS UNION WASHINGTON OFFICE

Mr. SILBERGELD. Mr. Chairman and members of the subcommittee, Consumer Union [1] appreciates your invitation to testify before these hearings on meat prices. Only recently have consumers begun to testify before the agriculture committees of the Congress. We believe it to be very important that your committee hear and consider the views of consumers as well as producers. Therefore, we hope that you will continue to seek consumer views on all substantial agriculture issues which come before the committee.

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[1] Consumers Union is a nonprofit membership organization chartered in 1936 under the laws of the State of New York to provide information, education, and counsel about consumer goods and services and the management of the family income. Consumers Union's income is derived solely from the sale of *Consumer Reports* (magazine and TV) and other publications. Expenses of occasional public service efforts may be met, in part, by nonrestrictive, noncommercial grants and fees. In addition to reports on Consumers Union's own product testing, *Consumer Reports*, with its 2.2 million circulation, regularly carries articles on health, product safety, marketplace economics, and legislative, judicial and regulatory actions which affect consumer welfare. Consumers Union's publications carry no advertising and receive no commercial support.

The price of meat is of continuing concern to consumers. Meat price increases over the past 2 years have tremendously increased the strain which food prices place on the family budgets of the poor, and persons on fixed incomes, which they place to a lesser—but, nevertheless, significant—extent upon the budgets of middle income consumers. What is of concern at this point is that retail meat prices have not fallen concommitantly with farm prices. In other words the farm retail price spread had increased significantly.[2]

Beef prices are the primary concern. First, the increase in the spread is much more marked than for pork. Second, consumer preference for beef causes beef prices to be a strong determinant of the price of pork and other meat prices. The phenomenon of skyrocketing beef price increases and seemingly paradoxical low profit for cattle producers is the subject of an article in the September issue of our magazine, "Consumer Reports", of which I submit a copy for the record.[3]

The data which are available point to two primary sources for the price increases. One is the cost of cattle feed. Worldwide grain shortages drove grain and bean prices sky high in 1972–73, and this was aided by maladministration of farm policy plus the Soviet grain sale in 1972. World demand for grains and soybeans remain high, and USDA corn crop predictions indicate that weather conditions this summer have significantly limited the previously hoped for supply increase. Except to regulate speculation in grain, there is not much that this committee or the government can do about the short-term grain supply—although creation of a grain reserve would have a positive effect on long-term supply.

The second primary source of the spread increase, however, cannot be attributed to grain cost increases. USDA figures indicate that much more of the increase is due to the carcass-retail spread than to the farm-carcass spread. That is, it is due primarily to cost increases added after the carcass leaves the packing house. This portion of the spread includes wholesaling, transportation of carcasses, fabricating activities, and retailing costs.[4]

We do not have an analysis of what cost and profit increases have affected this portion of the spread increase, and this information vaccum may well be one of the causes of the problem. Both competition and cost efficiency tend to grow and prosper in daylight. If any significant portion of the spread increase is due to administered pricing power in the wholesale, retail, or transportation section that information is partly uncollected, mostly unanalyzed and, therefore, not meaningfully available to Congress or the public. This state of congressional and public ignorance exists despite the recommendation, 8 years ago, of the National Commission on Food Marketing, that:

> In order that the Congress, the executive branch, and the public will be fully informed, we believe that the Federal Trade Commission should be charged with making a continuing review of market structure and competition in the food industry and report annually thereon to the Congress.

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[2] See Farm Retail Price Spreads for Red Meat. Report of a Special Task Force to the Secretary of Agriculture, U.S. Department of Agriculture, August 1974, figures 1 (following p. 2) and 2 (following p. 3).

[3] "Buying Beef: What Pushed Prices Up?", Consumer Reports, September 1974, pp. 656–658. The article is one of three in the series "Buying Beef," all contained in the September issue.

[4] Report to the Secretary of Agriculture, supra, p. 4.

If the members of the subcommittee are here today groping for the basic relevant data, instead of obtaining views on the meaning of the data and on proposed solutions based upon full data—you and your colleagues are in great part to blame. It is sadly predictable that information on a crisis is obtained and analyzed in time to write the history of that crisis, not in time to head it off or minimize its effect.

The Congress should still, at this late date, implement that recommendation of the National Commission. What evidence we have indicates that there well may be some power on the part of supermarket chains to administer prices. One fascinating piece of evidence adduced in the Federal Trade Commission case, *Matter of National Tea*, Docket 7453, shows that a supermarket chain's profit margins tend to increase or decrease from city to city in direct proportion to its share of the market in each particular city.[5] And a study of 158 metropolitan statistical areas shows that in more than half—eighty-four—the four largest supermarket firms control 50 percent or more of sales.[6] This is a level of concentration which many leading economists agree is not consistent with independent pricing behavior by the firms in such a market. While the Federal Trade Commission's supermarket merger guidelines have prevented significant increases in supermarket concentration for the past few years, the Commission has yet to undo the effects of past mergers and anticompetitive conduct one existing levels of concentration. The FTC is now engaged in an investigation of the relationship between market concentration and food prices in six metropolitan areas.[7]

This committee should be especially interested in the outcome of the Commission's inquiry. It should assure itself that the investigation adequately answers questions which may exist as to the relationship between market concentration and the power to "administer" prices, or it should insist on further studies which do answer that important question. It should scrutinize the FTC's actions which result from that investigation to assure that they are sufficient to deal with the problems which the investigation may reveal. And it should determine what legislation the Congress needs to adopt to deal with any systematic problems which the Commission's investigation may highlight. A lack of continuing congressional interest and oversight into Federal agency performance can be considered, as much as any other cause, the reason why such problems are not dealt with—if at all—until they reach crisis proportions. We sincerely invite and urge the continuing attention of each member of this committee to the Federal Trade Commission a supermarket competition investigation.

Some of the informational vacuum in which we now find ourselves could be alleviated by the newly initiated Federal Trade Commission line of business program. That program, when it is fully operative, will provide the most reliable data yet available for individual industries—on profits, costs, advertising expenditures, research, and development expenditures, and so forth. However, this report as extensive as it may be, will not be specific enough for the purposes of

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[5] *Structure and Competitive Behavior of Food Retailing*, Staff Economic Report of the Federal Trade Commission, Washington, D.C. (1966), pp. 93–95.

[6] Structure and Competitive Behavior of Food Retailing, supra, p. 293. See pp. 366–372 for the individual city data on 218 Standard Metropolitan Statistical Areas.

[7] "FTC Confirms Food Probe," Washington Star News, July 1, 1974, p. C7.

this committee because the Commission has chosen to include in the same product reporting category every meat product as defined by the Office of Management and Budget,[8] from fresh red meat to sausage, turkeys, and freeze-dried eggs. If this committee expects to use FTC data in the future to find out what is going on in various segments of the meat industry, it would be well-advised to see that future FTC line of business reports provide for more specific and distinct product categories of meat than it now does.

This is of particular concern because processed meats, which have some price effect on fresh meats, are a significant factor in the food budgets of many low-income and fixed-income Americans. Processed meats are also considered by many knowledgeable economists to be less competitively priced at the processing level than fresh meat, depending upon brand name advertising instead of Government grades for assurance of consistent quality. The Federal Trade Commission staff has concluded that such advertising, or product differentiation:

> . . . plays a particularly significant role in determining the profit performance of food manufacturing firms by its influence on the relative position of the firm in the market as well as by its impact on entry into these markets.[9]

While the Commission's study was not specifically directed to meat processing, it is reasonable to assume that these considerations hold as well for meat processors as for other food processors and manufacturers.

We are unaware of any ongoing FTC or Department of Justice antitrust activities with regard to meat processing, other than merger cases. In view of the FTC staffs conclusions about "product differentiations" and food manufacturers' profits, as well as other conclusions in the study about the relationship between market concentration and profits, such activity probably should be going on at FTC or Justice, unless the two agencies have determined that their budgets are completely allocated to other matters of higher priority. We believe that this committee should determine whether that is the case.

Before concluding, Mr. Chairman, I should state that we have no magic solution to the meat price problem. What information we have points primarily to the distributional end of the meat chain as the place where recent price increases are not accounted for. That information suggests the possibility of ineffective competition in many metropolitan area grocery markets, a subject which is now under Federal investigation and which should receive careful attention when the investigational results become available. It suggests secondarily, some possible competitive problems in the processed meat submarkets, where brand names are utilized to identify quality of goods. In addition, the unavailability of systematically collected and analyzed information about these problems, without regard to whether we are in the crisis phase of the inflation-stability cycle, leaves both the Government and the consumer in a predictably helpless condition which must be remedied, preferably by adopting a proposal along the lines recommended in 1966 by the National Commission of Food Marketing.

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[8] See *Standard Industrial Classification Manual,* U.S. Office of Management and Budget, Washington, D.C. (1972), pp. 59–60.

[9] *Influence of Market Structure on the Profit Performance of Food Manufacturing Companies,* Economic Report of the Federal Trade Commission Staff, Washington, D.C. (1969), p. 6.

We hope that this committee will be instrumental in improving this situation.

We appreciate your invitation to present our views before these hearings. Thank you.

Mr. VIGORITO. Mr. Denholm?

Mr. DENHOLM. I will defer questions of the witness at this time.

Mr. VIGORITO. Why do we not hear the other witness?

We will now hear Mr. Robert Hudek of the National Consumers Congress of Washington. We are happy to see you here today. We have had the producers, feed lots, packers, and now we are having the consumers; and I hope to have the retailers in a future session.

STATEMENT OF ROBERT HUDEK, NATIONAL CONSUMERS CONGRESS

Mr. HUDEK. I hope that members of the committee would bear with me. I would like to read my statement in its entirety, only because I think it puts into focus some specific data and some specific facts about various issues that have been discussed only in very general terms this morning.

My name is Robert Hudek, and I am a research assistant for the National Consumers Congress. This set of hearings testifies to the fact that the only way to confront a problem effectively is to fully understand it. Thus, the first problem to be dealt with is the serious information gap which is hampering both legislators and consumer advocates. Specifically, the role of retailers in high meat prices can never be fully appraised until retailers' profit figures by department are made available. In addtion, the potential for price reductions through increased productivity cannot be accurately appraised until comprehensive data on labor, transportation, storage, and other production costs for packers, wholesalers, and retailers are made available. Finally, the Department of Agriculture must expand its farm-retail price spread data to include regional analyses and to fully account for the effect of specials on average retail meat prices.

Even without complete information, the self-vindicating claims of the industry are doubtful at best. Before looking at the contribution of the industry, particularly the retailers, to high meat prices, it would be helpful to briefly summarize the current status of meat supplies, and recent trends in meat margins.

According to the U.S. Department of Agriculture, the Nation's cattle herd has been building rapidly for several years, while total calf and cattle slaughter has remained at about the same level since the mid-1960's. Thus, the ranges and pastures are heavily stocked, and continued dry weather this fall could force a large movement of both cows and young cattle to market. Since feed costs are so exorbitant, many steers and heifers will be slaughtered after being grass fed only. The results will be large supplies of low-grade beef in late 1974, and even larger supplies in 1975, but possibly lower supplies of choice beef.

If the normal laws of supply and demand were fully operative in the American meat industry, we could, with some measure of assurance, predict steady or lower prices, overall, for beef. Unfortunately, in this industry, price is often independent of supply and demand. The USDA's "Livestock and Meat Situation" reports that increased

42-780—74——6

supplies were accompanied by 7 percent lower farm prices of meat animals in the first half of 1974. But, wholesale meat prices were 1 percent higher, and retail meat prices were 10 percent higher despite declines in the second quarter. These developments are reflected in the USDA's farm-retail price spread figures. Although the trends in farm wholesale and retail prices lend logical support to the Department's price spread statistics, the National Association of Food Chains has attacked the validity of these figures and the adverse implications drawn from them. This statistical dispute clouds the issue, however. Even if the NAFC is right, and the farm-retail spread for meat is overstated, the consistency of the USDA's methodology allows one to draw valid conclusions concerning trends in the price spread over time. Here, the facts are very clear. Since 1963, the farm-retail price spread has consistently risen and 90 percent of the increase was generated at the carcass to retail level. A memorandum compiled by the staff of the Senate Committee on Agriculture and dated June 7, 1974, concluded:

> The retail margin—the difference between selling price and cost of salable beef—has shown fairly steady growth. The average retail margin for the first 4 months of 1974 is running 10 percent above last year's average and 66 percent above the average for 1968, or over twice the rate of inflation for this latter period.

The logical conclusion at this point is that in the face of rising costs, retailers have increased their profits by raising meat prices above the levels generally warranted by market conditions. Before the standard consumer's cry of corporate profiteering is summarily rejected as irresponsible, it is instructive to note that a Special Task Force Report on Farm-Retail Price Spreads for Red Meat, dated August 1974, reached exactly the same conclusion. I quote:

> The changes in meat price spreads and general marketing costs suggest that the profits for retailing meat increased sharply during the first half of 1974. Based on this circumstantial evidence, it appears that the increase in meat price spreads was caused partially by food retailers changing their pricing policies to increase profits in their meat departments.

The Federal Reserve Bank of Chicago said in its May 31 agricultural letter that "the available evidence suggests that higher profits have contributed to the widening farm-to-retail price spreads." That conclusion is supported by Business Week magazine figures showing that in the first 3 months of the year, the largest food retailers had profits that were 59 percent higher than a year ago, even though their sales were up just 14 percent. I am sure that both legislators and consumers would welcome a refutation of this charge by having retailers appear before the committee and reveal their margin mark-ups and profits by department and product line.

Historically, the retail food industry has vindicated itself from charges of excessive profits by quoting very low sales to profit ratios. These statistics, as discussed this morning, merely reveal that the industry operates on a high turnover, low markup basis. A more accurate measure of profitability is profits as a percentage of shareholders' investments. The Federal Trade Commission has found that in a competitive industry there is a return on shareholders' investment ranging from 5 percent up to a high of 9 percent. Any profits beyond that standard are assumed to be the result of excessive concentration.

Fortune magazine of July 1974 reveals, contrary to the industry's claim, an excessive profit picture. Safeway, the Nation's largest food chain, returned 13.1 percent on shareholder's equity. Lucky returned 18.9 percent, Jewel 13.8 percent, and Winn-Dixie 19.1 percent, and the list goes on and on. Large regional chains, such as Fisher Foods and Albertson's, returned 16.8 percent and 17.1 percent respectively.

These high profit levels are often the result of entrenched market positions. Statistics provided by Dr. Russell Parker, Assistant to the Director of the Bureau of Economics in the Federal Trade Commission, reveal that more than half the cities in the country are dominated by four or fewer chains. In the Washington, D.C. area, for example, Safeway, Giant. Grand Union, and A. & P. control 72 percent of the grocery market.

It is important to realize that high profit rates and high market concentration ratios of food retailers are not per se detrimental to consumers. They only become so if they are used to pass on prices unreflective of the true costs encountered by the firm. Unfortunately, such seems to be the case, particularly with meat, if one examines the marketing strategies and pricing policies employed. Two examples will suffice to prove the point. In a California lawsuit recently completed, six cattlemen charged that the large retail chains—A. & P., Safeway, Kroger, named as defendants; Winn-Dixie, First National, Colonial, Giant, Food Fair, Brenner Tea Co., and Jewel Tea Co., named as co-conspirators—had fixed prices and eliminated competition by centralizing buying, exchanging information, coordinating efforts to control supply and providing sales and profit information to their trade associations. Safeway and Kroger settled out of court in 1973, while A. & P. was found guilty of conspiring to fix high retail beef prices and low wholesale prices, and fined over $30 million.

The second example involves a recent USDA complaint that Wilson and Co., a major meatpacker, has been selling meat to the Giant and Safeway chains around Washington, D.C. and Baltimore at lower prices than to smaller retailers competing in the same area. Although hearings have yet to be held, these charges lend support to the picture of corporate irresponsibility, which seems to pervade the American meat industry. As concerned consumers, we urge that this irresponsibility not be overlooked in an assessment of the current meat crisis.

In earlier testimony, we have provided an analysis of the feedlot and packing segments of the industry, and we would be happy to return to discuss those aspects of the problem if the committee wishes. I also have some data with me if the committee wishes to pursue it.

In conclusion, it is obvious from the sketchy picture we have drawn that more complete information about the American meat industry is needed. This committee can make a positive contribution toward narrowing the information gap by considering the following recommendations:

(1) Require the Federal Trade Commission to collect line of business data so that the profit status of various departments in the retail food industry can be ascertained.

(2) Urge the Department of Agriculture to expand its price-spread data to include regional data and more accurate retail aggregate prices.

(3) Recommend that the National Commission on Productivity undertake an extensive, unbiased study of the entire American meat industry for the purpose of uncovering inefficiencies and recommending ways of cutting costs.

(4) Urge the FTC and the Department of Justice to expand and intensify their antitrust efforts in the food economy.

Mr. VIGORITO. Thank you, Mr. Hudek, for a well presented statement.

Do either of you gentlemen wish to comment on this? You both know, I am sure, and you have heard the statement that the meat department in many grocery stores carry the whole store, that the gross profit on meats is great enough that regardless of what the rest of the store does, that the store will survive.

Do you agree with that?

Mr. HUDEK. I think that it is important to know that about over 20 percent of the overall sales in the retail store are accounted for by meat. The next highest item only accounts for 5 percent of the total sales. If you are looking in terms of volume and dollar markup, I think that there is a substantial bit of truth to that statement, particularly in the beginning of 1974, where the special report that I quoted said that there is substantial evidence to show that there was a lot of profit making in the meat departments.

Mr. VIGORITO. Do you believe that each department in a grocery store, you have meats, fruits, vegetables and other foods, in addition to their hardware department and whatnot. Nowadays it is hard to tell whether you go to a hardware store or a grocery store, but do you believe that each department should carry its own weight in a store?

Mr. HUDEK. Obviously in order to operate profitably a retail food store has to have a very low markup on certain items, some well known brand names that they cannot afford not to stock them and they cannot afford to charge too much prices on them.

On the other hand, when you are talking about basic nutritional necessities and the high markup that currently exists on those necessities, I think there is room for change there. We are not asking you for an overall change in the profit status of the store, although there is a lot of evidence that says that it simply is too high. We are saying on those nutritional staples that the margin should not be as high as the evidence seems to exist that it is.

Mr. SILBERGELD. I would disagree in part. I believe, if a particular retail food market is competitive and if in addition, consumers have enough information which they do not now have to shop on the basis of some economic facts, then there is no problem and there is no consumer detriment with the retailers providing particular departmental mix, margin mix, which can produce the lowest overall prices consistent with consumer preferences.

Unfortunately, we do not have either of those ingredients right now in many metropolitan markets. I previously mentioned the information on the opportunity for administered prices in metropolitan retail food markets. The other thing is that consumers do not have information on chain-by-chain pricing to make the kinds of shopping decisions they need to make. The Federal Trade Commission, I believe, a year ago last March, proposed and announced that it was considering and received public comments on a projected supermarket basket survey on a chain-by-chain basis in each of a number of metropolitan regions which would have provided shoppers at least in those regions with some information on comparative prices, chain by chain. The Commission staff, I believe—the Commission has abandoned that program, as far as I can tell, without ever having put it in effect. The Commission staff, it is my understanding that the benefits would not be justified by the enormous cost of running a program in such a way that No. 1, it provided accurate information to the consumer, and No. 2, it did not give the retailers the opportunity to juggle their prices in response to what they could predict would be in the next survey's basket, and thus make the survey data inaccurate in terms of the store's overall price levels.

In response to that, Commissioner Mayo Thompson of the Federal Trade Commission has been reported in the press as under that the Commission rather than doing a very expensive, hundred item or thousand item marketbasket survey, just collect compulsory process, and publish the department by department margins of the leading chains in the survey regions. And of course, since the processing of that information is much easier than the processing of a shopping basket data collection, they could probably do that at much less expense for a much greater number of markets.

That recommendation, as I understand it, was sent down to the Bureau of Economics, and the Bureau of Consumer Protection for their comment. Nothing has been heard of it since. I do not know if it is the Bureau, whether it has come back to the Commission and been killed or what. Apparently the Commission has abandoned Commissioner Thompson's proposal without ever having acted on it. So the consumer neither has what appears to be price competitive markets in many metropolitan areas, and also does not have the information necessary to shop and select their chain on the basis of information about overall store price which the consumer can process at a reasonable, at what economists would call a reasonable consumer opportunity cost. That is, you do not have to spend 3 hours studying price data before you decide where you are going to shop for the week.

If that information becomes available, then I do not believe that it would be appropriate for the Government to try and tell the retailers what kind of a margin mix they should have from department to department. I would rather see competition do it, but I would also like to see the agencies that are charged with the responsibility assure us and have continued review over the facts which would assure us that there is competition in the industry.

Mr. VIGORITO. Mr. Denholm.

Mr. DENHOLM. Thank you, Mr. Chairman.

You made a very clear and concise statement. Sometimes I think we would be better off just to read the magazines that you obtained your data from than to have hearings because we cannot discover as many facts in hearings as you have accumulated here in one statement.

I am distressed and disturbed by the fact that we are always working against time. We never really get to the depth of the issues in the matter. We claim to have packers before us when in truth, in fact, we have not had packers before us today. We had agents that represented trade associations. They claimed to speak for packers.

I am not impressed with the testimony of record on the net profit margins based on a percentage of gross sales. I know that is one way of reporting. There is also another way to report and you suggest it in part.

Do you propose that we should pursue legislation limiting the net profit margins of the food wholesale and retail industries?

Mr. HUDEK. I think the suggestion that Mr. Silbergeld just made addresses that question quite well. If we had the FTC expand its categories in its line of business reports, then the normal competitive mechanisms in industry would probably serve to reduce some of those prices. It would certainly serve to get rid of the kind of situation that happened in the 1960's and the 1970 lawsuit that I referred to. We would not have the propensity toward administrative prices and price fixing. So that is the first step, just to have the FTC get that information available.

I would have to see what would happen to prices once the information was available to be able to comment on whether or not a legislative remedy would exist.

Mr. DENHOLM. I am of the opinion that we have reached a national crisis in the current food cost economic circumstances. Producers cannot be expected to provide the supply of red meats necessary in this country at a continuing market that provides to them less than the cost of production.

Do you agree?

Mr. HUDEK. I certainly would. There would obviously have to be inventives for everyone.

Mr. DENHOLM. Do you agree that if that occurs in the long run that the demand for that which is available will cause higher prices to consumers?

Mr. HUDEK. I am sorry. Could you restate that?

Mr. DENHOLM. If we permit a national policy which places producers in the position of providing a source of supply at less than the cost of production, then the natural economic phenomenon is that they cannot do so even if they desire to do it. Therefore, it follows that in the long run consumers will pay more for lower quality and a less available supply. Isn't that true?

Mr. HUDEK. If that is true, I think you see a concomitant reduction in consumer demand.

Mr. DENHOLM. I now refer to your testimony, the percentages of profit, and you obtained that from magazines.

How is it that magazines can obtain that information, but this Committee on Domestic Marketing and Consumer Relations of the U.S. Government cannot get that information?

Mr. HUDEK. Obviously when a retailer or a packer comes before this committee, he wants to quote the figures that are going to make him look best, and in a low markup, high turnover market, these figures are profits as a percentage of sales.

Now, Fortune, you know, it is public that the profits of a given company, both as a percentage of sales and equity are publicly available, and that is where we got that. For their own benefit unless, as was demonstrated earlier this morning, they are really pressed on it, they do not talk about their profits as a percentage.

Mr. SILBERGELD. There are some problems with relying on that data. As I said before, we get what is available and we make do with it because it is the best we can get our hands on. Consumer organizations do not have the power of compulsory process.

Fortune, which is not necessarily the most specific information that is publicly available, it simply takes the rates of return from the SEC 10–K's. Some of those 10–K's for meat packers reflect reality, and some of them do not. If you look at it for those meat packers who are only in the meat packing business, it reflects their rate of return on stockholders equity. If you look at it for Greyhound, which owns a meat packer, or any other conglomerate who owns a meat packer, it doesn't reflect any information on their rate of return on their meat packing operation at all. That information is lost in the conglomerate data. That makes it almost impossible to compute the industry data. It is one of the things that is wrong with the FTC's quarterly financial report which the first witness this morning attached to his testimony, because that information, the FTC simply takes the Greyhound reports from Transportation. Greyhound's meat packing activities are reported in Transportation. They are omitted in the industry averages that the FTC's quarterly report provides this committee and the public with regard to profits of meat packers. So that data is not really what we need. It is not reliable, and it is one of the reasons that we need both the more specific line of business report data that I urge this committee to seek from the Federal Trade Commission, and the annual and ongoing Federal Trade Commission report on the competition in the food industry.

Mr. DENHOLM. On the last exhibit attached to the statement of the first witness, Mr. Mohay, I refer you—do you have a copy?

Mr. SILBERGELD. Yes, I do.

Mr. DENHOLM. Look at 1973, at the bottom of the page, October to December, it shows a meat packer's margin of 1.7.

Do you find that in the boxed in column for the accounting period in 1973.

Mr. SILBERGELD. Yes.

Mr. DENHOLM. Now, that is for the last accounting quarter of 1973, is it not?

Mr. SILBERGELD. Yes.

Mr. DENHOLM. If you look at the last quarter of 1973 in the chart above that, which reports the equity of stockholders' earnings—there is no entry.

Can you explain that?

The 1.7 percentage is the highest return on sales shown in 21 years. Yet, nothing in equity of stockholders for the last quarter of 1973 is shown of record.

Mr. SILBERGELD. I do not know why it is missing because as I understand it, part of this in the layout, frankly, looks like it is taken from the Quarterly Financial Report, but footnote three indicates that some of this is from Moody's Manual.

Mr. DENHOLM. This supports the theory that you are testifying to and it does not report reliable data for evaluation, does it?

Mr. SILBERGELD. Sometimes it does not even report complete unreliable data. I think that there is no doubt, certainly the committee staff must be familiar with the FTC's report on the reliability of publicly available data for purposes of industrial analysis. That indicates that all kinds of information we have on this table 2 is simply unreliable. It is unreliable for the witnesses, any of the witnesses drawing firm conclusions here before you. It is unreliable for purposes of U.S. members and staffs drawing conclusions on which to base proposed legislation. It is unreliable for the Federal Trade Commission and the Antitrust Division to determine whether they have a competitive problem, that they ought to spend public funds investigating.

Mr. GOODLING. Will the gentleman yield at that point?

Mr. DENHOLM. Yes, I yield.

Mr. GOODLING. Do you consider all the information you get in magazines reliable?

Mr. SILBERGELD. No, I do not. It depends on what information, it depends what the sources are. Then I have to find out what I can about the reliability of the sources. When we are talking about financial statistics, Mr. Goodling, it depends on what economists would say, what kind of dirt there is in the data.

What we do know in this kind of information, there is a tremendous amount of dirt in the data.

Mr. GOODLING. Thank you for yielding.

Mr. DENHOLM. That is the point I wanted developed.

Where are we to secure reliable information? It is difficult to formulate reasonable conclusions if we cannot obtain clean, reliable data from some source. I presume you experience the same frustration.

Mr. SILBERGELD. First of all, it is clear that the best way to get reliable data is to get it under penalty of perjury or providing misinformation to a committee of the Congress. And perhaps I should take what I said back, what I said at the beginning. Perhaps it would be better if this committee heard the witnesses from the chain stores under oath and maybe it would be better in addition if this committee were to obtain a Federal investigation in which the information were submitted under compulsory process.

Mr. DENHOLM. The producers cannot wait years for investigation and litigation in the courts for somebody to be penalized and then pay back $32 million. In that length of time many producers in the country will be out of production and consumers will be paying higher prices. Consumers can scarcely pay more and it is clear the producers cannot accept less.

Mr. SILBERGELD. My answer to that is if the Congress in 1966 had responded to the recommendations of the National Commission on Food Marketing, and had so structured the statutory burden which they placed on the Federal Trade Commission in providing an annual report to Congress on the state of competition in the food industry so that it produced the kind of data, we would now be sitting here with the data in front of us and discussing what that data meant and what the Congress could and could not do about it, rather than where are we going to get that data.

Again, unless we get it before the problem arises, we are never going to get it fast enough to deal with a problem or to minimize the impact of the problem.

Again, I can only urge that we take steps now to assure that that information is available systematically rather than on a crisis basis.

Mr. DENHOLM. There is no representative of the industry or trade association that has not learned in the course of time that if he comes here and delays long enough, that the bell will ring and that will take care of his appearance for the hearing. We constantly experience that time limitation in all hearings.

I appreciate your observations, but one last question.

Suppose we presume that all you have testified to is true. What do you propose that the Congress of the United States should do about it?

Mr. SILBERGELD. If all we say is true, then the first burden of the Congress is to make sure—first of all, let me put this in perspective. Obviously not all of the inflation in meat prices is due to markup power and administered prices. There are increases in grain prices that have to do with everything from grain deals 2 years ago and what I frankly believe to be mismanagement of the farm program during an election year, to the weather, and genuine crop disasters in various parts of the world which have been occurring for at least 2 or 3 years, about which the Congress can do nothing, although long-term research programs by USDA in the past have produced miracles when we thought we could do nothing. Those miracles now appear to be insufficient in some respects.

But I do not suggest that the Congress can do something about all of the meat price problem or any other inflation problem. All I am suggesting is that if we focus on those portions of the Congress and the executive which the Congress ought to be pressuring to do the proper job can effect, then I suggest that those areas, administered pricing power is one of the things that you most obviously can get the executive to do something about.

First, you need the information as to what the situation is, and we cannot get it in time for this crisis. I do not know if we are ever going to get it in time if we do not get it systematically.

Second, I think that the Congress perhaps has fallen down on its review of the performance of agencies that are responsible for doing this.

Finally, I see the Congress has before it from the conference, the House-Senate conference a proposal to reform the Commodities Exchange regulation. That is one proper step. On the other hand, I am not familiar with the details of that legislation. I can only hope that it is adequate at this point. But I certainly think that the first step is to assure that the information is available before we need it, as soon as it can be available on a regular basis, whether or not there is an ongoing crisis.

The second one is to constantly review the performance of the executive agencies and the independent agencies that are arms of the Congress, not always this committee's responsibility. Frequently, it is the responsibility of the Commerce Committees or Judiciary Committees to see that competition in the marketplace do the best job possible.

There are, of course, a variety of other possibilities that we have not discussed here today, including the grain reserve. Frankly I am not prepared to testify except that, to suggest if it is feasible, I think it is a good idea. I am not prepared to testify and take a position on that kind of legislation today. I think that possibility and a number of other things along that line ought also to be made the subject of hearings if they are not already.

Mr. DENHOLM. Thank you very much, Mr. Chairman.

Mr. VIGORITO. Thank you, Mr Denholm.

Mr. Goodling?

Mr. GOODLING. Thank you, Mr. Chairman.

I am going to make a few observations. I think they should be made since most of you people here are in the interests of consumer groups.

I am very much interested in these hearings. I have been encouraging the chairman to hold these hearings. There are a lot of things that we need to know. We need to know something about the spread between what the producer receives and what the consumer pays.

I want to say a few words in the interests of the producer because I happen to have been one for 50 years.

There are some things that the general public does not know about producing food, and I would like to point that out, even though we are talking about beef. I am not going to touch beef, as I said because I know less about beef production than any of the other farm commodities. I happen to have been a producer, as I said, for more than 50 years. Let me point out a few things to you.

I made a few rough notes and they are not very well organized but I think I can touch on a few things in a very few minutes that you people as consumers should know.

In the first place, I would like to ask you people to point out to your consumers, the people that you represent, that when they go to the supermarket and they go through that checkout counter, have them look at what in their basket is food and what is nonfood, and in a good many cases I think you are going to find that the nonfood items will probably cost as much as the food items. But regardless of what is in that shopping cart, that is their grocery bill for that week, and that is a very unfair way to look at it.

This cost of production. I happen to be a fruit grower. I have bought thousands and thousands, and I have used this illustration on a good many occasions because it is something everybody should understand. I have bought thousands and thousands of 16 quarter peach baskets at 3 cents apiece. Today that basket is costing me 40 and 45 cents, and the quality is not nearly as good as it was when I paid 3 cents. That goes into my cost of production.

I bought a tractor in February, a small tractor. Three or four years ago I bought the same make tractor and it was a heavy tractor, far bigger than the one I bought this year. This February tractor cost me more than the big tractor did 3 or 4 years ago.

There is not a farmer who does not use a pickup truck today. Pickup trucks have more than doubled in the last 2 or 3 years. The suits that we wear, we as producers have got to buy clothing also. I was wearing an acknowledged good brand. That prices doubled in just 1 year's time.

I have a freezer in my basement. The pilot light is going bad. Last week, my daughter went to the place where we bought the freezer and bought a new light. The serviceman said if he comes out and installs this light it will cost me $12.50. All it needs is to be plugged in and I can do it myself for $12.50.

Everything we do as producers is costing us more than more than it ever did before, and I think the people should know what they have got to pay more for food if they expect us to continue to produce.

The Federal Government is the only organization that I know of that can continue to spend more and more every year than it takes in. The producers simply cannot do that.

What else did I have on here? Fuel prices. You all drive automobiles. You know what has happened to fuel prices. The fuel oil and gasoline that I use on my farm is costing me just the same as it does you people.

I notice Mr. Hudek, you say your organization grew out of the meat boycott in 1973. I had a very interesting experience, and I may have told it in here before but not to the same group. The leaders of the boycott in my city of York came in to see me in my York office one Saturday morning. I allowed them to cry on my shoulder for a long, long time, and finally I asked just a few questions, and the interview was over.

I said, "Do you ladies drink cocktails?" "Yes," they all did. "Do you smoke cigarettes?" "Yes," they all did. "Are you boycotting these two items?" "No," we are not. I said, "Well, do not come in here and cry on my shoulder about the high price of beef. I said cocktails and cigarettes have both gone up in the same proportion, or even in greater proportion than the price of meat has. We have got to consider that sort of thing unless I am completely in error.

I am making a plea for both the consumers and the producers, but let us be fair before we critize the producer too much, because I know something about the cost of production. I also go to the grocery store and buy groceries and if you are going to continue to have good food that I know we want here in the United States, you are going to have to be willing to pay the price.

I want to close with this statement. I too, just the same as Mr. Denholm and the chairman of the committee, have said, want to know where the price rise spread is between what the producer gets for his cattle and what I and what you people as consumers pay.

Mr. VIGORITO. This concludes the meeting for today.

Mr. DENHOLM. Mr. Chairman?

Mr. VIGORITO. Mr. Denholm.

Mr. DENHOLM. The bell has not sounded and I want to make a statement. I am persuaded to make this statement because this matter, in my judgment, constitutes a national crisis. I do not believe that we should wait 30 days for the testimony of the packers and retailers. Is there a possibility that we move forward with their testimony. We are at the peak of the marketing season.

I prevail upon your good judgment to continue the hearing at the earliest possible time.

Mr. VIGORITO. I do not see where it would be possible.

When we adjourn Friday—I hope we adjourn Friday—for the election, Congress will not reconvene until November 11, and I have to attend a 3-day seminar and meeting at the United Nations at the end of that week, on the 13th, 14th, and 15th, so the next date that we can possibly meet would be Tuesday, November 19.

Mr. DENHOLM. I appreciate the problems involved. I have reservations about the Congress adjourning for the election and whether that is more important than the economy of this country.

The President will be making an address to the joint session of the Congress today at 4 o'clock. We do not know what recommendations he will make, but our committee has a moral obligation and a clear responsibility to move on this matter without delay.

Mr. GOODLING. I want to say, Mr. Chairman, I am in a different position than most of you but I will be willing to come here during our recess.

Mr. DENHOLM. I will, too. I do not believe that we should let the peak of the marketing season go on without at least jawboning and exposing the irregularities of the market, both in the interests of the consumers and the producers alike.

Mr. VIGORITO. If you would yield to me, I have 2 or 3 days around October 20 or 21, Monday, Tuesday, and Wednesday morning open of this month, and I will give that serious consideration, and if we can get the supermarkets and the chains to come in on those 3 days, I would be very happy to fly back to Washington for a hearing.

Mr. DENHOLM. I will not be happy to do it, but I will be here.

Mr. VIGORITO. The meeting stands adjourned until further call of the Chair.

[Whereupon, at 12 noon, the subcommittee adjourned subject to the call of the Chair.]

RISING COST OF MEAT

TUESDAY, OCTOBER 22, 1974

House of Representatives,
Subcommittee on Domestic Marketing
and Consumer Relations
of the Committee on Agriculture,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 1301, Longworth House Office Building, Hon. Joseph P. Vigorito (chairman of the subcommittee) presiding.

Present: Representatives Vigorito and Goodling.

Also present: Anita Brown, staff assistant.

Mr. Vigorito. The Subcommittee on Domestic Marketing and Consumer Relations is now in session and we are continuing hearings on the meat prices with emphasis on the spread between what the farmer receives and what the retailer charges.

Our first witness today is Mr. Arnold Mayer of Amalgamated Meat Cutters and Butcher Workmen, Washington, D.C.

Mr. Mayer, will you identify yourself and your assistant?

STATEMENT OF ARNOLD MAYER, LEGISLATIVE REPRESENTATIVE, AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN (AFL-CIO); ACCOMPANIED BY JAMES WISHART, RESEARCH DIRECTOR

Mr. Mayer. Mr. Chairman, this is James Wishart, he is the research director of our union. This is a joint statement from the two of us. Mr. Wishart will deliver the statement.

Mr. Wishart. Our names are James Wishart and Arnold Maver. We are the research director and legislative representative, respectively, of the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO).

The Amalgamated is a labor union with 500,000 members organized in about 700 local unions throughout the United States and Canada. The Amalgamated and its local unions have contracts with thousands of employers in the meat, retail, poultry, egg, canning, leather, fish processing, sugar refining, and fur industries. About 400,000 of our members are employed in the various phases of processing, distributing, and selling meat.

INFLATION PROBLEMS

Mr. Chairman and gentlemen of the committee, we appreciate your invitation of October 8, to appear at these hearings. We share with you and with consumers a great concern about the total impact of inflation and the special impacts of sharply escalating prices paid by consumers at the checkout counters of food retail stores.

We are especially anxious about meat prices since they doubly affect our members. On the one hand, they and their families must pay the ever-higher toll just as any other consumers. On the other hand, they are continuously kidded and criticized by their fellow workers, their neighbors, and their friends about the high price of meat—a factor over which they have no control.

We are also concerned about the year's sharp decline in livestock prices. Many of our members—especially in the meat packing industry—live and work in rural areas. Small farmers and livestock producers are their relatives, neighbors, and friends. Coming from farm families, some of our members, themselves, own a little land and a few head of cattle. They know and feel firsthand the recent problems of producers.

From the beginning to the end of the Nixon administration's multiphase stabilization program, its freezes and thaws, its restriction and loosening of production, and its one economic idiocy after another, food price escalation has been a major and unresolved problem. The continuing rise of food prices through 1972 and the high velocity escalation in 1973 made totally ridiculous the entire wage stabilization program, under which our members were mandatorily kept from August 1971 to April 1974.

FOOD AND MEAT ESCALATION

By the end of 1972, the price tag for the average family's annual food expenditure, as reported by the USDA, was 6.9 percent higher than it had been for the second quarter of 1971. By the end of 1973, that price markup on the family food basket was 31.3 percent. In most recent months—a period of declining farm prices—these retail increases have continued, though at a slower pace. As of August 1974 retail food prices were 40.7 percent above the level of the second quarter of 1971. The food price increases compare with and contributed to a 24.3-percent rise in the total Consumer Price Index in the same timespan.

Meat price trends have headed the whole procession of food price increases. The retail price of the meat component of the USDA's family market basket rose 16 percent in 1972 and 27.6 percent in 1973. Even after a sharp fall in livestock prices, retail meat prices in the second quarter of 1974 remained 30 percent above average levels previous to the August 1971 initiation of the Nixon administration's program of wage-price stabilization.

Various forces have contributed to these escalations. Essentially, their impacts came in two phases: First, in the years 1971 to 1973 sharp gains in retail food and meat prices primarily resulted from higher farm price levels; second, from the end of 1973 to the present time, higher prices rung up at supermarket cash registers reflected increased farm-retail margins.

By the third quarter of 1973, for example, the farm value of foods was up 64.3 percent above the second quarter of 1971. But the farm-retail spread, representing total payments to costs and profits of middlemen, had risen by only 7 percent and profits of middlemen, had risen by only 7 percent in that period. Out of $356 a year increase in the average family's yearly food bill only $22 had been taken by such middlemen. And they had picked up less than $8 out of an increase of $187 in the average family's yearly meat bill.

FEDERAL JEKYLL AND HYDE

These price trends reflected a Jekyll and Hyde policy of the Federal Government. While some officials of the Nixon administration valiantly preached price stabilization, other officials quietly, but powerfully, practiced food price inflation. The Cost of Living Council went through verbal rituals of price control and practiced drastic controls on wages in the food-processing and retail industries. But in the face of dangerous world food shortages, the U.S. Department of Agriculture actually increased restrictions on farm outputs for 1972. It then paid farm producers $5 billion out of the Federal Treasury to hold 60 million acres of good land out of production.

When vastly expanding exports of wheat and feed grains—including the infamous Russian wheat deal—don't interpret this is opposition against détente—pressed against the restricted supply, the result was inevitable. There was gigantic inflation in all farm prices, including the price of feed grains, which is essential to the output of livestock producers.

In April 1973 our union urged in a letter to President Nixon that Secretary of Agriculture Earl L. Butz be fired and the Nation's agricultural policy be turned around before the great food problems became critical. Our chief executive officer, Secretary-Treasurer Patrick E. Gorman, pointed out the need to maximize farm production and to assure farmers a good income in return for producing all they could.

Gorman urged that a Secretary of Agriculture be named who would turn his energies toward this goal instead of attempting to cover up his own failures with a massive campaign of turning farmers against workers, workers against consumers, and consumers against farmers—a campaign upon which Secretary Butz was then embarked and still tries periodically. Unfortunately, our union's effort was to no avail.

LOW-FARM, HIGH-CONSUMER PRICES

Meat price ceilings were imposed in March 1973. This administration gesture was aimed primarily to divert attention from its own guilt in food price inflation. It served only to create additional price and supply distortions. In the third quarter of 1973 retail meat prices were 50-percent higher than they had been in the prestabilization months of 1971. Livestock prices had peaked at 89.4 percent but the farm-retail spread had increased only 4.4 percent.

By the fourth quarter of 1973 the situation was reversed. Consumer buying power had then proved insufficient to maintain sky-high meat prices. When cattle, which were previously held back, came flooding out of feedlots, livestock prices plummeted. From August to December 1973 cattle prices fell more than 26 percent. The overall level of livestock prices paid farmers and feeders dropped an average of 15 percent from the third to the fourth quarters of last year. Such rapid price declines brought farm producers into a bitter cost-price squeeze.

While the price of their fed cattle was declining sharply, the price of feed itself and other production costs remained at record high levels.

This economic dislocation for farm producers, however, brought no relief to city consumers. The decline of 15 percent in livestock prices reflected itself in a decline of only 2 percent in retail meat prices between the third and fourth quarters of 1973. And a decline of 7 percent in the average price of farm foods brought no decrease but a rise of 2 percent in the price of all foods purchased by American consumers.

In the second quarter of 1974 the average family's food bill amounted to $1,731 a year. Out of that total, $516 went to cover the costs of meats at that time. That price tag of $1,731 was $127 above the third quarter 1973 total annual food cost of $1,604. From that total payments going to farm producers were down by $81; "middleman" payments were up by $208.

LABOR COSTS

Mr. Chairman and gentlemen of the committee, these are the sad statistics on food and meat prices since 1971. In the back of this statement, we have included tables which provide further data. However, we assume you have invited us particularly to discuss labor costs and we shall not disappoint you.

To begin with, please recall that our members only recently came out of the nightmare of wage controls. They were kept under mandatory controls from August 1971 to April 1974. That meant that any negotiated wage increase greater than 5.5 percent or fringe benefit increase of more than 0.7 percent could not go into effect until the Cost of Living Council had specifically approved them. Between January 1973 and April 1974, only workers in the food, construction, and health industries were subject to these mandatory shackles. All other workers were under voluntary controls.

We have presented detailed and lengthy testimony to the committees dealing with the now-dead and unlamented Economic Stabilization Act on the horrors caused by the mandatory controls. We shall not repeat. Suffice it to say, the Cost of Living Council would take a year or more to consider a contract. It would then often cut it to shreds or not put the increase into effective retroactivity for the time the Council took to consider the case.

Interestingly, in the major meatpacking contracts, which have had cost-of-living escalators since the 1950's and which provided catch-up pay in dribbles, the damage was less. In the retail industry and some other food industries which had a tradition of long-term contracts without escalator clauses, the havoc and destruction was great. The wages of hundreds of thousands of our members fell behind the cost of living, and continue, I might say, to be below real levels of a number of years ago.

Some rural conservatives have argued that the loss of real wages by workers is only comparable to the business losses suffered by producers. We would like to point out at least one great difference which we have found in our many conversations with livestock producers.

We have asked why and how they can afford to stay in the business. They have told us that a factor permitting them to wait for better times is the value of their land is continuously increasing and gives them a cushion for loans and other benefits. Aside from a few in rural areas whom we mentioned at the beginning of this testimony, our members do not have the cushion of rising land values. They can only cut their living standards. If those cuts go too far, there is only welfare.

ATTACKS ON WORKERS

Of course, there are many who seek to protect friends or propagandize against labor by blaming spreading middleman margins on the wage levels of food industry workers. The U.S. Department of Agriculture—successfully maintaining its unblemished record of failure and false excuses—is among that group.

Recent materials released by the USDA, for example, point the finger at meatpacking workers and say their hourly earnings had increased 53 percent by the first quarter of 1974 over the 1967 averages. USDA found the first quarter average hourly rate of $3.45 of workers in retail food stores to be 55 percent above 1967.

Such data shows the very opposite of excessive wage increases. They mean that the wage increases, deflated for cost of living rises in that entire 7-year period, were only 8 percent for packinghouse workers and 9 percent for retail food store workers. And the USDA's retail food average wage of $3.45 an hour is exactly 5 cents below the figure which the Congress officially set as the income level of the working poor in the 1973 amendments to the Economic Stabilization Act. We are glad to be able to report that the wage levels—although not the rate of increase—for the skilled retail meat department employees represented by our union are considerably higher.

Further, we would specifically call your attention to exhibits E and F in the back of this testimony for the data on wages, unit wage costs, and productivity in the meatpacking industry since 1956. They show that in the 18½-year period covered—1956 through the second quarter of 1974—wages increased 142.3 percent, but the wage cost of producing a pound of meat rose only 29 percent because of productivity increases.

I might say these productivity figures are minimal figures; they by no means represent the real gain in output per man-hour. There have been substantial changes in the meatpacking industry. Work done in that industry now includes a sector of work formerly done in the retail food store itself. The work of breaking, packing beef, is now being done by 8,000 or 9,000 workers whose employment and work hours appear in the overall man-hour series of the BLS but whose outputs are not represented in the production figures which we have used. These are simply the total commercial slaughter of red meat. The productivity gain has been substantially higher than that shown by the data in our tables.

On an annual basis, wages increased an average of 4.9 percent while the wage cost to produce a pound of meat in the packinghouse rose an average of 1.3 percent.

This productivity record compares quite favorably with the rest of the economy. In the period of 1956 through the second quarter of 1974, unit wage costs increased 70.1 percent in the total U.S. private economy, 40.1 in manufacturing, and 29 percent in meatpacking.

But let us look at the period of the greatest increase of middleman benefits in the meat industry—from the third quarter of 1973 through the second quarter of 1974. This is the period of very rapid expansion in price margins. Wages per pound of meat produced in meatpacking during that period actually went down. Despite substantial wage increases, the rising productivity of workers brought a decline from a unit wage cost of 4.24 cents to 4.18 cents a pound.

RETAIL DATA

Specific figures for productivity of our members in the retail meat departments are not available. We have been unable to get a record of man-hours or of sales volume from the retail chains, despite, I can assure you some very diligent efforts in that direction. Also, neither we nor the corporations have been able to measure productivity in the service aspects of the retail food industry. We have not been able to calculate the impacts of the various efforts made to please customers, such as cutting some purchases exactly to the consumer's liking, answering questions, and maintaining late-evening or Sunday store hours, which are uneconomical.

We have previously described the ravages of the retail wages and the union contracts of our retail members by the Cost of Living Council on the one hand, and by inflation on the other. Our retail local unions are currently attempting to have their members catch up with the cost of living in new contracts. They tell us from their own experience that these wage increases, too, have been paid for by increased output, but we have no measurements.

Yet, let us for the moment discount their reports. Let us say there has been no increase in output. What would the impact be if the 6-percent increase in food store wages reported by the Bureau of Labor Statistics since the third quarter of 1973 were fully and completely reflected in retail food prices? If labor costs are, as the USDA estimates, 8.5 cents on retail food dollar, then the full cost of such increases would have added no more than 0.5 percent—one-half of 1 percent—to the price of food.

INDUSTRY PROFITS

Meanwhile, profits in the meatpacking and retail food industries have been sharply rising. After-tax profits for the 17 food chains listed in exhibit G for the first 6 months of 1974 were 76 percent above profits for the same period of 1973. For nine packers—exhibit H—the increase was 36 percent. This latter figure includes the nearly $5 million loss Monfort Packing suffered entirely because of heavy losses on its gigantic cattle feeding operation.

One more point about meat prices, Mr. Chairman and gentlemen of the committee. In its general flailing about, USDA has claimed to find a solution to the meat price problem in the development of central cutting of beef. We regret that such hopes are illusory. The fact is that more than 60 percent of the beef now sold to consumers has been centrally cut into primals and subprimals. This rapid changeover in the industry has been nowhere accompanied by any tendency toward price reduction of even a penny a pound—to say nothing of the 5 cents a pound claimed by such promoters as Mr. Currier Holman of Iowa Beef Processors and Secretary of Agriculture Butz.

There are mass production economies and savings in transportation costs because of the fabrication of beef in Iowa packinghouses for sale in east coast retail markets. But in terms of costs to consumers, these savings are more than offset by the high costs of the special packaging materials required for such "boxed beef." These materials now add about 5 cents a pound to the cost of boxed beef. This amount is greater than the entire labor cost for slaughtering and processing such beef.

Mr. Chairman and gentlemen of the committee, we again want to express our appreciation for this opportunity to present the views of our union.

EXHIBIT A — Family Market Basket of Farm Foods

(Figures have been annualized)

Period	Retail	Farm Value	Farm-Retail Spread
1971 I	$1,217.16	$467.46	$ 749.70
II	1,244.76	474.16	770,60
III	1,260.90	482.30	778.60
IV	1,260.09	486.17	773.96
1972 I	1,291.36	506.86	784.50
II	1,297.85	510.29	787.56
III	1,323.42	534.15	789.27
IV	1,330.63	534.23	796.40
1973 I	1,413.83	625.42	788.41
II	1,497.05	674.15	822.90
III	1,603.67	779.10	824.57
IV	1,634.65	721.98	912.67
1974 I	1,720.02	777.04	942.98
II	1,730.83	697.53	1,033.30
July	1,726.33	706.85	1,019.48
August	1,751.19	729.06	1,022.13

Source: USDA, Marketbasket of Farm Foods

EXHIBIT B Index of Family Market Basket of Farm Foods

(2nd Quarter 1971=100.0)

Period	Retail	Farm Value	Farm-Retail Spread
1971 I	97.8	98.6	97.3
II	100.0	100.0	100.0
III	101.3	101.7	101.0
IV	101.2	102.5	100.4
1972 I	103.7	106.9	101.8
II	104.3	107.6	102.2
III	106.3	112.7	102.4
IV	106.9	112.7	103.3
1973 I	113.6	131.9	102.3
II	120.3	142.2	106.8
III	128.8	164.3	107.0
IV	131.3	152.3	118.4
1974 I	138.2	163.9	122.4
II	139.0	147.1	134.1
July	138.7	149.1	132.3
August	140.7	153.8	132.6

Source: USDA, Marketbasket of Farm Foods

EXHIBIT C

Family Market Basket
Meat Spreads

(Figures have been annualized)

Period		Retail	Farm Value	Farm-Retail Spread
1971	I	$365.72	$197.73	$167.99
	II	372.40	201.16	171.24
	III	380.56	210.60	169.96
	IV	382.67	214.97	167.70
1972	I	410.56	234.95	175.61
	II	413.39	239.72	173.67
	III	431.76	251.28	180.48
	IV	431.82	247.18	184.64
1973	I	477.90	303.73	174.17
	II	507.99	322.24	185.75
	III	559.87	381.04	178.83
	IV	547.65	321.16	226.49
1974	I	560.36	326.52	233.84
	II	515.94	275.84	240.10

Source: USDA, Marketbasket of Farm Foods

EXHIBIT D

Index of Meat Spreads
for Family Market Basket

(2nd Quarter 1971 = 100)

Period	Retail	Farm Value	Farm-Retail Spread
1971 I	98.2	98.3	98.1
II	100.0	100.0	100.0
III	102.2	104.7	99.3
IV	102.8	106.9	97.9
1972 I	110.2	116.8	102.6
II	111.0	119.2	101.4
III	115.9	124.9	105.4
IV	116.0	122.9	107.8
1973 I	128.3	151.0	101.7
II	136.4	160.2	108.5
III	150.3	189.4	104.4
IV.	147.1	159.7	132.3
1974 I	150.5	162.3	136.6
II	138.5	137.1	140.2

Source:. USDA Marketbasket of Farm Foods

EXHIBIT E

MEAT PACKING EMPLOYMENT, OUTPUT AND OUTPUT PER MANHOUR
(1956-1974)

YEAR	PRODUCTION WORKERS	MANHOURS (In Thousands)	COMMERCIAL MEAT OUTPUT 1/ (In Millions of Lbs.)	OUTPUT PER MANHOUR
1956	188,164	420,384 2/	27,009 lbs.	64.2 lbs.
1957	176,741	389,117 2/	25,928	66.6
1958	170,400	362,407	24,713	68.2
1959	163,300	361,742	26,361	72.9
1960	164,800	359,923	27,387	76.1
1961	158,700	345,776	27,438	79.4
1962	155,600	339,021	27,891	82.3
1963	153,400	338,216	29,516	87.3
1964	151,100	337,860	31,687	93.8
1965	149,100	327,185	30,636	93.6
1966	146,300	319,519	32,124	100.5
1967	145,200	320,137	33,753	105.4
1968	144,400	319,875	34,817	108.8
1969	143,400	316,169	34,914	110.4
1970	143,200	315,727	35,818	113.4
1971	146,000	320,382	37,363	116.6
1972	143,800	307,329	36,640	119.2
1973	137,600	295,510	34,470	116.6
1973 (annual rates)				
IIIQ	132,200	285,288	31,932	111.9
IVQ	137,500	303,875	36,780	121.0
1974 (annual rates)				
IQ	138,800	303,865	36,000	118.5
IIQ	140,500	310,505	37,476	120.7

1/ Years previous to 1966 adjusted by estimated volume of contract slaughter, first report in commercial meat output in 1966.
2/ Census manhours adjusted by average ratio of BLS to Census Manhours in 1958-1961.
Sources: Bureau of Labor Statistics and United States Department of Agriculture.

EXHIBIT F

AVERAGE HOURLY WAGE, POUNDS OUTPUT AND WAGE PER POUND MEAT PACKING INDUSTRY
(1956-1974)

YEAR	AVERAGE WAGE PER HOUR	AVERAGE OUTPUT	WAGE PER POUND
1956	$2.08	64.2 lbs.	3.24 cents
1957	2.23	66.6	3.35
1958	2.38	68.2	3.49
1959	2.50	72.9	3.43
1960	2.60	76.1	3.42
1961	2.69	79.4	3.39
1962	2.77	82.3	3.37
1963	2.82	87.3	3.23
1964	2.91	93.8	3.10
1965	2.99	93.6	3.19
1966	3.09	100.5	3.07
1967	3.24	105.4	3.07
1968	3.45	108.8	3.17
1969	3.67	110.4	3.32
1970	3.98	113.4	3.51
1971	4.20	116.6	3.60
1972	4.49	119.2	3.77
1973	4.71	116.6	4.04
1973 (annual rates)			
IIIQ	4.74	111.9	4.24
IVQ	4.84	121.0	4.00
1974 (annual rates)			
IQ	4.96	118.5	4.19
IIQ	5.04	120.7	4.18

Sources: Bureau of Labor Statistics and United States Department of Agriculture.

EXHIBIT G Supermarkets - Six Months Profits
(in 000's)

	1974	1973	
Albertsons	$ 5,862	$ 4,560	+28.6%
Allied Supermarkets	-60	3,029	
American Stores	12,038	2,886	+318.7
Colonial Stores	5,790	4,362	+32.7
Fisher Foods	5,920	4,419	+34.0
Food Fair	7,870	5,952	+34.5
Gamble-Skogmo	8,666	8,194	+5.8
Grand Union	2,825	2,983	-5.3
Great Atlantic & Pacific	15,274	-1,030	
Jewel Cos.	14,410	12,238	+17.7
Kroger	17,592	9,149	+92.3
Lucky Stores	17,800	15,200	+17.1
National Tea	-4,947	-38,575	
Safeway	52,960	39,900	+32.7
Stop & Shop	3,323	2,214	+50.1
Supermarkets General	2,956	4,492	-34.2
Winn Dixie	47,623	42,720	+11.5
Totals	$215,902	$122,693	+76.0%

Source: Moody's Industrial Manual

EXHIBIT H

Meat Packing Companies
Nine Month Profits
(in 000's)

	1974	1973	
Esmark	$ 49,749	$32,462	+53.3%
Flavorland	1,179	1,900	-37.9
George Hormel	11,121	3,361	+230.9
Hygrade	4,523	4,811	-6.0
Iowa Beef	11,944	7,970	+49.9
Kansas Beef	1,636	1,394	+17.4
Oscar Mayer	20,248	13,048	+55.2
Missouri Beef	5,706	2,692	+112.0
Monfort	-4,856	237	-
Rath	1,149	-99	+
Spencer Foods	1,695	812	+108.7
Western Beef	-2,075	757	-
Wilson & Co.	453	5,830	-92.2
Total	$102,472	$75,175	+36.3%

Source: Moody's Industrial Manual

Mr. VIGORITO. So we can go through the exhibits, which are attached to your prepared statement, I will look them over and Congressman Goodling can look them over to see if anything unusual stands out over this 4-year period that you covered from 1971 through 1974.

The first one is "Family Market Basket of Farm Foods," and I guess we all agree there that the prices have gone up, have increased, and increased substantially. Farm values, of course, have not increased at the same rate.

Farm retail spread doesn't seem to be as great there as it does between August 1974 and the first period of 1971—over 40 percent there.

The next exhibit is "Inflation of Family Market Basket of Farm Foods."

Mr. WISHART. That simply indexes the dollar figure given in exhibit A. In other words, it shows the varying trends with the very rapid increase in farm values up to the third quarter of 1973. Following that there was a decline in farm values and a very rapid increase in the so-called middleman's margin.

Mr. VIGORITO. This reduces everything to percentage. That is what I like.

Mr. WISHART. Yes, the second quarter of 1971, the period just previous to economic stabilization is the base period for the indexes straight through there.

Mr. MAYER. This is the USDA index, Mr. Chairman.

Mr. VIGORITO. These figures are all tied together to indexing with other sources to see how close they jibe.

According to this exhibit B, the farm retail spread has decreased, is that correct, gone from 132, a 32-percent increase?

Mr. WISHART. That is correct. Though the striking——

Mr. VIGORITO. Farm value from August 1974 from 100 to 153 or 53.8 percent.

Mr. WISHART. The striking thing that seems to me about that whole trend is the fact that as of the third quarter of 1973 farm values have increased very substantially to 64.3 percent. The farm retail spread in that same period went up only 7 percent.

Then, as our statement indicated, from the third quarter of 1973 on to the second quarter of 1974 the whole trend reversed. While farm values actually declined, the farm retail spread went up very dramatically from 107 percent in the third quarter of 1973 to 132.6 in August 1974, and 134.1 percent in the second quarter of 1974.

Mr. VIGORITO. Their profits must have gone up even faster; is that correct?

Mr. WISHARD. That is a legitimate assumption. And of course, in that spread you could have represented a whole series of profits. Those spreads could include the rapidly increasing interest charges on the loans required for normal operation of many food processing industries. They could represent increased rate of taxation in some situations. They could represent the whole range of costs levied upon the producers and retailers of the industry, and they represent also, in my opinion, a substantial increase in the rate of profit earned by major corporations of the food industry both at the processing and retailing levels.

Mr. VIGORITO. I think we all know that interest rates have definitely gone up higher than the average inflation rate. Net interest has gone up tremendously, even much greater than other inflation factors.

Let's turn to exhibit C, "Family Market Basket Meat Spreads."

Would you comment on this statement?

Mr. WISHART. That shows exactly the same trend. Rapidly rising farm values up to the third quarter of 1973, an even sharper decline in prices received by farmers for livestock from 1973 to the first and second quarters of 1974. A very moderate increase in margins for meat up to the third quarter of 1973, then a dramatic expansion of those margins from the third quarter of 1973 through to the middle of this year.

Mr. VIGORITO. Third quarter of 1973.

In other words, do you have this correct, the average family spent $381 in the third quarter of 1973 and then dropped to $275 in the second quarter of 1974?

Mr. WISHART. The amount spent by the average family is represented by the first column under the heading, "Retail price."

Mr. VIGORITO. All right.

Mr. WISHART. And that figure for the second quarter of 1974 was $515.94. Out of that $515, $276 roughly went to farmers, $240 went to all of the middlemen between the farm level and the retail meat counter. And you will find by contrast that as of the third quarter of 1973, the farmer was receiving not $275 or $276 but $381 for the same amount of livestock. So there has been a drastic and in some ways disastrous decline in returns to the farmers who are caught between declining prices in livestock markets and a continuing inflation in the costs they have to meet. This applies specifically to livestock producers. In a sense the high prices still enjoyed by producers of grains, under pressures of world inflation, translate themselves into inflated costs for cattle feeders. The consequence of this, I think, in the long run could be serious. Thousands of farmers, we are told, are going out of production of livestock, both cattle and hogs. The total meat supply 1, 2 or 3 years from now will tend to fall off.

Mr. VIGORITO. Exhibit D is the same as exhibit C except it reduces everything to percentage.

Mr. WISHART. Again we reduce everything to an index.

Mr. VIGORITO. Exhibit E "Meat Producing Employment Output Per Manhour."

Mr. WISHART. That is correct. The output per man-hour is simply the total commercial meat outputs in pounds divided by the total man-hours worked to give you year-by-year, pound output per man-hour for all production workers in the meatpacking industry. That industry is SIC–2011.

Mr. VIGORITO. Is the number of workers in the industry decreasing?

Mr. WISHART. It decreased dramatically from 188,146 in 1956 to 137,500 at the present time.

Mr. VIGORITO. That holds true for most industry?

Mr. WISHART. I would say, sir, that the rate of productivity gain in the meatpacking industry has exceeded substantially the rate of gain in the manufacturing industry and even more greatly the rate of gain in the economy as a whole.

This reduction in the total number of workers has been accompanied by a very sharp rise in total output from 27 billion pounds of meat in 1956 to 36 billion in 1972, and to a 37-billion-pound-a-year rate in the second quarter of 1974.

Mr. VIGORITO. An increase of meat output from 1956 to 1974, that is a higher increase than the increase in population in that period, if I am not mistaken.

Mr. WISHART. Yes, it is.

The rate of population growth, if I remember the figures, is something over 1 percent a year.

Mr. VIGORITO. Translated that means that more people are eating more meat?

Mr. WISHART. It means also that for every 1,000 people eating meat there are fewer packinghouse workers and meatcutting workers than there were in 1956.

Mr. VIGORITO. That accounts for the increased standard of living in the last 10 years.

Let's go on to exhibit F and see what we have there.

Mr. WISHART. That shows the admittedly very substantial rate of increase in hourly earnings for production workers in the industry along with the rise in average output and as a combination of the two factors, the wage or labor cost per pound through this period.

Mr. VIGORITO. We have exhibit G, "Supermarkets, Four Months of Profits."

Mr. WISHART. These are the latest available 6-month periods, as compiled by members of our staff. They show, for the number of supermarkets listed here an average gain in profit after taxes of 76 percent from 1973 to 1974. Needless to say, we have discussed with some executives or representatives of retail food chains the question of margins and profits. One statement they made to us was, well, we had to do something to make up the loss we had suffered under the period of wage-price controls, the meat boycott, livestock withholding actions and other problems.

As you may remember, the food chains were under a general profit margin restriction. Some of them in my opinion, did suffer hardships during the summer of 1973 when cattle were being withheld from markets. It was difficult to obtain meat. Many of them resorted to a contract system under which they bought cattle directly from farmers, and had those cattle slaughtered on a contract basis by packinghouses throughout the country. Some of them were not very good bargainers, and they did have some economic problems. Some were paying 95 cents to $1 or more per live weight pound of meat.

However, with the end of the meat price ceilings and the whole stabilization program, you can be sure that any reduction in profit margins suffered, were adequately compensated for. In my opinion, the compensation has been very substantial indeed.

Mr. VIGORITO. Exhibit H, "Meat Packing Companies—9 Months Profit."

Do you care to comment on that?

Mr. WISHART. Yes.

Mr. VIGORITO. Would you excuse me a minute. Backtracking, would you know offhand on exhibit G, the supermarket listed there, the total of $215 million there, what percentage of the total retail food these supermarkets——

Mr. WISHART. I cannot give you an exact figure.

Just making a quick ballpark estimate, these could represent between 25 and 30 percent of the total retail food volume in the country. I give you that figure subject to revision when we have an opportunity to check it out more carefully.

Mr. VIGORITO. Go on with "H" please.

Mr. WISHART. I would like to call your special attention to the loss reported for Monfort in 1974. Monfort is distinguished among the packers for maintaining very large cattle feeding operations. Monfort himself buys and feeds out hundreds of thousands of cattle in gigantic feed lots in the Greeley, Colo. area. With the sharp decline in cattle prices, Monfort suffered a gigantic loss, I think in the neighborhood of $6 or $7 million, on his cattle feeding operations. This was sufficient to wipe out the very substantial profit he made from his packinghouse operations and left him with a net loss of close to $5 million during the year.

That Monfort situation I am calling your attention to, because it does represent the problem faced by cattle feeders throughout the country, and this large corporate in a way reflects the loss suffered by the family farmer who has been feeding out himself some livestock on his own.

Mr. VIGORITO. Mr. Goodling, do you have any additional questions?

Mr. GOODLING. I would like to say in the first place, I think it is very unfortunate that you came here, apparently to attack the Department of Agriculture rather than help us acquire facts that we are very much interested in. I don't think we are going to solve any problems if you come here with your design to do that, and that is what you have done practically all through your remarks.

Mr. WISHART. I might say——

Mr. GOODLING. I didn't have your statement in advance and it is very difficult to listen to anyone read a statement of this kind and know exactly what he is saying, because as you go along, it is almost impossible to pick up everything.

I want to turn to page 3 for a second. You say the third quarter of 1973, for example, the farm value of food. What do you mean by the farm value of food?

Mr. WISHART. That is the return to the farmer in dollars for the total amount of domestically produced food.

Mr. GOODLING. Say that again please?

Mr. WISHART. That is what the farmer gets for producing food consumed by this Nation and by other nations also.

Mr. MAYER. That is a USDA figure. That is not our figure. It comes from the U.S. Department of Agriculture.

Mr. GOODLING. I am still trying to determine what it is. You said that is what the farmer actually receives?

Mr. WISHART. That is the USDA report on cash received by farmers for the total farm food output.

Mr. GOODLING. Then in the same paragraph, "Out of a $356 a year increase in the average family's yearly food bill, only $22 have been taken by such middlemen."

You use the word "middlemen" on a good many occasions. Who are the middlemen. Give us some examples, who are they?

Mr. WISHART. The middlemen represent quite a congregation. It includes those who truck cattle to markets, it includes the meatpacker, it includes the trucker who takes the meat in boxed or carcass form from the packing house to the wholesaler, it includes the wholesale operation, it includes the distributor. It includes the retailer.

In other words, the term "middleman" covers everyone between the farmer on the one side and the city consumer checking out food at the supermarket cash register on the other.

Mr. MAYER. Again, that is not our term, that is the term commonly used to explain the people involved in the farm retail price spread. It is a term used by the USDA.

Mr. WISHART. The term is not pejorative, we are not denouncing the men for being in the middle.

Mr. MAYER. We are simply explaining the terms and where we get them from.

Mr. GOODLING. You say that your secretary-treasurer pointed out the need to maximize farm production and to assure farmers a good income in return, for producing all they could.

Farmers generally do produce all they can. They have in recent years.

Mr. WISHART. Not, sir, in year 1972 when the Department of Agriculture paid them $5 billion to hold 60 million acres of farm land out of production. Marketing orders, other restrictions of production, have come down from a period of vast farm surpluses and low farm prices to represent continuing restrictions. Farmers traditionally produce as much as they possibly can on the available acres or the acres under cultivation, but national policy, and I am not personifying it too much, but national farm policy has suffered from a vast cultural lag.

In 1972 Secretary of Agriculture Butz operated as though we were in a farm surplus period of the year 1936. He restricted production, he did everything possible to maximize shipments of products, of feed grains and everything else, as though our agricultural supplies were inexhaustible, while at that time actually limiting the output of farmers.

Mr. GOODLING. I am opposed to farm subsidy but if the farmers had been allowed to produce all they could in that period, we would be in far worse condition today than we are.

Mr. WISHART. It is in recogniton of that fact.

Mr. GOODLING. I think you people expect the farmer to produce at a loss and, I happen to be a farmer, I have been one for 50 years.

Mr. MAYER. Unlike you, we don't oppose farm subsidies, we think the target price system, for example, is a very good idea. The farmer should be urged to produce all he can and a basic income be guaranteed to him. The 1973 agricultural legislation provided that to some extent, through the target price system.

Mr. GOODLING. You recall in 1972, and I think my date is correct, the Commodity Credit Corp. had tons and tons and tons of everything with the food line and you and I as taxpayers were paying a terrific amount of money to subsidize what the Commodity Credit Corp. had, we were paying interest, paying storage and they then sold it at a terrific loss.

The point I am trying to make is the U.S. farmer will produce and produce all he can if he is given a fair profit, and I think it is time everybody takes that into account.

Mr. MAYER. We agree with you, that is why we are saying we support the target price system. We think there ought to be a basic income guarantee to the farmer and he should be encouraged to produce all he can. The United States currently has very little left in the grain reserve. There is a shortage throughout the world. Our Nation gets into all sorts of problems when the Russians come into our market and buy. We think that all these problems could be helped by assuring the maximum production and at the same time assuring the farmer an adequate income.

Mr. GOODLING. Well, there are times when we simply cannot have maximum production if the farmer is going to survive because the American farmer can produce too much in a normal year and we haven't had a normal year in the last 2 or 3 years.

Mr. WISHART. It is our suspicion we are not likely ever again to see normal years.

Mr. GOODLING. I don't agree with that.

Mr. WISHART. World food deficits are going to become a permanent feature.

Mr. GOODLING. I assume you are blaming Secretary Butz for the weather we have had in the last few years?

Mr. WISHART. We don't give him credit for any close association with the highest levels in the management of the universe.

Mr. GOODLING. I think it is unfortunate.

Since you are talking about the Secretary of Agriculture, on page 5 you say that the Secretary turned farmers against workers.

Give us some specific instances where this occurred?

Mr. MAYER. The specific instances, Mr. Goodling, are the various statements that the Secretary made, in which he claims that labor is holding back on production, that our efficiency record is not good, that boxed beef would make great savings and that the unions are preventing boxed beef from coming into markets. The unions didn't prevent boxed beef from being sold. We are not happy about it, believe me, but the unions did not prevent boxed beef from being sold in most cities as is shown by the very fact that 60 percent of the meat consumed today is centrally cut beef. That is one example.

In 1973, he had gone on the attack blaming everything but the weather upon the unions. If you think we are unfair to him, we can only tell you that we think he had been extremely unfair to us.

Mr. GOODLING. Well I don't agree with that statement but——

Mr. MAYER. We are going to have to agree to disagree on that subject.

Mr. WISHART. I was present, sir, at a press conference at the recent Food and Agriculture Conference in Chicago when Secretary Butz told the press that resistance by the Amalgamated Meat Cutters to the centralized cutting of boxed beef was in effect inflating the price of meat to consumers by 5 cents a pound.

Mr. GOODLING. If you had been Secretary of Agriculture in the past few years what would you have done, specifically, to help the situation that we are in today?

Mr. WISHART. I have no ability to project myself into that high and elevated position. However, our union has consistently called for the elimination of all restrictions on farm outputs, effective guarantees of farm income, to reward increased output with increased income rather than collapsed income. We have called for measures to expand fertilizer production, to limit the shipment abroad of essential fertilizers and other materials, and to create conditions under which farmers can realistically and without sacrifice of their own interests produce an amount sufficient to begin to meet the needs of this Nation and some sector of the rest of the world.

Mr. GOODLING. Traditionally I have always felt a man has no right to criticism unless he has constructive suggestions to go along with the criticism.

Mr. WISHART. We feel there is some validity to our suggestions, Sir.

Mr. GOODLING. I have other notes here.

Industry profits.

After tax profits for 17 food chains listed in exhibiting for the first 6 months of 1974 where 76 percent above profits for the same period of 1973.

What were the profits, that is the important thing to me, not the increase or the decrease. What were the profits?

Mr. WISHART. You mean as a percentage of equity involved here?

Mr. GOODLING. Beg pardon?

Mr. WISHART. You mean as a percentage of return on net worth for these corporations?

Mr. MAYER. You will find those profits broken down according to individual corporations. Those figures come from the reports of the corporations as gotten together by Moody's Industrial Management.

Mr. WISHART. I am sorry I missed your initial reference. Our exhibit G gives the specific break-down of profits by corporation for these retail food chains.

Mr. GOODLING. What do your meat cutters receive in the super markets?

Mr. WISHART. The range of rates there is considerable. The average journeyman meatcutter who has been through an apprenticeship of 2 or 3 years will receive considerably more than the average for a retail food employee. Approximately $6 an hour will represent the rate in major meat centers throughout the country. That is obviously higher than the rate paid to the carryout boy. It is substantially lower, however, than rates paid a journeyman who has been through an apprenticeship in the building trades or other craft occupations.

Mr. GOODLING. I had supermarket managers tell me right in my own area that your meatcutters receive so much in wages that a great many of them will not work overtime. Is that a fact? Did you happen to know?

Mr. WISHART. I can't look into private motivations. The exercise of a leisure preference here is a thing which has been charged against labor in many circumstances. However, I can tell you that expressed in real terms, that is, in terms of the buying power of an hour's work or week's work, wages for retail meatcutters have tended to fall in the last 2 and 3 three years.

Mr. MAYER. Mr. Goodling, I can't talk about that specific instance because I don't know the manager, I don't know the store, I don't know the people. But I can tell you of a similar instance here in Washington where the chains have opened on Sundays and the workers, our people, are getting double time for working on Sunday. And the meatcutters are very, very eager for it. As a matter of fact, there is a tremendous bidding for working on Sundays and to work in the evening night operating here in Washington.

Mr. Goodling. One further question. I have asked this on a good many occasions from a lot of different witnesses.

When you talk about the cost to consumers, are you talking the food price to the housewife who goes through that checkout counter, are you talking about the cost to the consumer of everything that she has in the shopping cart?

Mr. Wishart. These prices here are prices she pays for the average marketbasket of U.S. domestically produced foods.

The consumer can go through the supermarket checkout stand with a number of nonfood items. Our figures here relate only to food items as reported by the USDA and the Bureau of Labor Statistics on the basis of their monthly pricing of retail food prices.

Mr. Goodling. Unfortunately, I find too many housewives who go through the checkout counter and their bill happens to be $20 or $30 and that is their food bill for the week. Yet, they will have everything in there but the kitchen sink. They don't consider that at all. They will have detergents, paper products, all necessary items, sure, but it is not fair to charge that to the food bill, but they do. The average housewife does that today and you know it and I know it.

Mr. Wishart. I might say in that connection that the average price of other than food items sold by supermarkets has increased somewhat less rapidly than the price of food.

Mr. Mayer. These figures discount nonfood products because they are the statistics which the Department of Agriculture gathers as the food basket amount. They don't count paper products and other nonfood items. These are not our figures or our surveys. They are the figures that the USDA puts out.

Mr. Vigorito. It's been said that the meat department in the retail stores carries the whole story. Do you believe that is true, and if it is, do you think it should be that way?

Mr. Wishart. The meat department in a sense is relied on, as we understand the strategy of most retailers, to bring customers into the entire story. It has been operated we are told, though we can't substantiate it with figures—it has been operated sometimes as a loss leader. A good bargain at the meat counter and there have been very few of them recently, a good bargain at the meat counter was counted on to bring in new trade, to maximize sales volume for the entire store. In this sense what you say happens to be the opinion of the retail food industry.

Mr. Vigorito. I hope the retail outlets that testify on the 19th of November can shed some light on that particular point.

I don't have any more questions.

I wish to thank you, Mr. Mayer and Mr. Wishart for your statement and discussions this morning.

Thank you.

Mr. Wishart. We appreciate the opportunity to speak.

Mr. Vigorito. Our next witness is Mr. John Copeland, president of the Swift Fresh Meat Co., Chicago, Ill., accompanied by Mr. Furgeson, meat economist and manager of Business Research Department, and Mr. Earl Spiker, attorney for Swift & Co.

42-780—74——8

STATEMENT OF JOHN A. COPELAND, PRESIDENT, SWIFT FRESH MEATS CO., A DIVISION OF SWIFT & CO.

Mr. Copeland. Thank you.

My name is John A. Copeland. I am president of Swift Fresh Meats Co., with central offices in Chicago. The Fresh Meats Co. is a division of Swift & Co. We are a major meat packer with 12 beef, 11 pork, and 3 lamb dressing facilities in the United States. We produce, sell, and distribute fresh meats in virtually all regions of the Nation.

I am also a director and serve on the executive committee of the National Live Stock and Meat Board. In August 1974, I completed a 2-year tenure as chairman of the National Live Stock and Meat Board.

I appreciate this opportunity to address myself to the committee concerning price spreads in the industry between farm and wholesale values. I say this not only because this is a much misunderstood subject, but also because the fresh meat industry has simply not received the credit due it for the job it has done for both producers and consumers over the past two decades. My company, as well as many others, has invested millions of dollars in new and remodeled meatpacking facilities, new machinery and equipment, and scientific research—all with the purpose of providing more efficient operations and lower operating costs. These have been successful efforts. I can point to our own case, in which our total operating costs per unit of production had actually declined in the past 10 years until sharply rising costs brought about higher expenses in 1973 and continues in 1974.

The number of new plants built and old outdated ones closed over the last 10 to 15 years is evidence that a substantial portion of the industry has moved to increase efficiency and to remain competitive in an industry with historically very narrow profit margins.

Were it not for these industry efforts, prices received by livestock producers would have been quite measurably lower, or prices of meat at wholesale quite measurably higher—or perhaps some of both.

I can say to you quite frankly that those of us in the meat industry are most disappointed there has been little or no recognition of these economic facts of life.

Let me turn to the matter of the calculated figure of the wholesale-farm price spread.

Exhibits A and B, attached to my written statement, are charts of the wholesale-farm price spread in beef and pork for 1963, through the first 9 months of 1974. The charts were made from the data published by the USDA.

For the beef price spread, quoting the Task Force Report dated August 1974: "Until the fourth quarter of 1973, when this spread nearly doubled, the farm-carcass spread had been remarkably stable since 1963." In pork, the Task Force report states that the farm-wholesale spread in 1973 was about the same as in 1963. In other words, the red meat industry has managed to offset practically every increase in operating costs for a decade without reducing payments to our raw material suppliers. The spread was 7 cents on beef in 1963 and averaged to be 8 cents in 1973. On hogs, the spread was 15 cents in 1963 and also 15 cents in 1973.

In studying the farm-carcass spread for beef, there are some factors you should be aware of concerning its calculation. These points make the spread figures less than factual at times.

Basically, it purports to show the gross margin between the price we pay for cattle and the price we receive for the carcass, with allowances made for byproduct credits. The intent of the series is to show the spread for a choice grade animal of yield grades 2 and 3, which are desirable grades. At the present time, there is not a live quotation that adequately reflects that yield grade when an unusually high proportion of the cattle purchased are running to yield grades 4 and 5. These yield grades 4 and 5 are the overly fat cattle with which the industry has been burdened during much of the time since October last year.

On the other hand, the wholesale price quotation for choice carcasses used in the spread calculation does reflect largely a yield grade 3. Sales of yield grades 4 and 5 carcasses in the past year at times have been at severe discounts of as much as 10 cents per pound.

At those times, the packer buyer obviously adjusts his bid on lots of cattle containing more than the normal proportion of cattle yield grading 4's and 5's. Official market quotations reflect this since the cattle fall in the choice grade.

Briefly, then, in a market such as has existed the last 12 months, the live prices established for choice cattle reflect the yield grade pattern, while in the dressed wholesale market, the quotation used in the calculation is oriented toward the yield grade 3 it really is. We estimate that the beef price spread calculation for this past year is as much as 2 cents per retail pound higher than the economics of the real world warrants. To bring into sharper focus the change in this spread as used by the USDA indicates an increase of $19.88 per head for the period November–August 1973–74, compared to the same period 1972–73, while Swift's spread shows an increase of only $7.25 per head.

We have corresponded with the U.S. Department of Agriculture on this matter, and in a letter dated April 1974, one of the staff economists acknowledged this problem. It was stated that efforts would be made to correct this shortcoming in the spread calculation.

After having said this, margins have increased in recent months. They have had to!

No meatpacker striving to stay in business could do otherwise, with the rapid price increases that have taken place since 1972 in everything and every service they buy to dress, sell, and deliver meat.

Here are some specific percentage increases that have occurred in our operation. Percentages are from September–October 1973 to September–October 1974:

Fuel oil, up 100 percent; gasoline, up 34 percent; natural gas, up 20 percent; electricity, up 25 percent; supplies, up 30 percent; construction, up 16 percent; machinery and equipment, up 25 percent; freight rates, up 20 to 25 percent; and labor rates, up 17 percent—labor fringe benefits, up 31 percent.

It might be of interest to the committee to know that in spite of these increases, 89 percent of every dollar that Swift receives for beef in the wholesale market has been paid back to the producers to live cattle in 1974. No other industry consistently pays such a high percentage of its revenue to its raw material suppliers. Obviously, this leaves only a few cents out of each dollar to cover the total costs of processing and distribution and earn a profit. As an industry, we have consistently performed well in both cost management and distribution efficiency. If you have doubts, compare U.S. red meat industry costs and efficiency with any other developed nation in the world.

As this widening wholesale-farm spread has been associated with excess profits, I want to emphasize the well documented fact that packer earnings are, and so far as I can determine always have been, very low relative to virtually every other industry in existence. We are at the absolute bottom of any industry comparison. Over the years, profit per sales dollar has averaged to be about 1 cent. That is a small part of the 9 cents to 11 cents of the sales dollar that remains after the live cattle are paid for. If packers took no profit at all, the impact on livestock values or on retail meat prices would hardly be noticeable.

If there is a question as to why and how such a low margin business continues to operate, let me point to several factors in the meat industry that are practically ignored.

One major factor is inventory turnover.

As an example, in the Swift Fresh Meats Co., we have an average inventory turnover at our production plants of more than 50 times annually. This compares to an average of 16 times annual turnover in U.S. industry as a whole. Thus, even with a modest profit rate on sales dollars, the multiplier effect of rapid turnover keeps the industry in business and has enabled it to make the necessary investments in new plants and equipment that we have seen in the last two decades. Unfortunately, today's costs require some higher margins if we are to continue to invest in meat processing.

I would summarize my statement by making these brief comments:

First. The meatpacking industry has made very sizable investments in new plants and equipment, generating a remarkable level of efficiency and productivity.

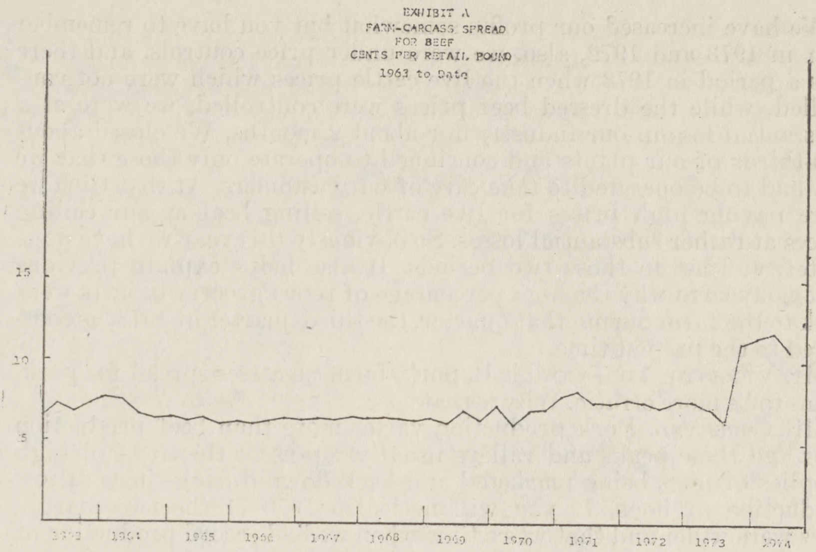
Second. The effectiveness of this efficiency and productivity is reflected in an almost constant level of farm-wholesale price spreads from 1963 to 1973; in effect offsetting all labor and other cost increases by improved productivity.

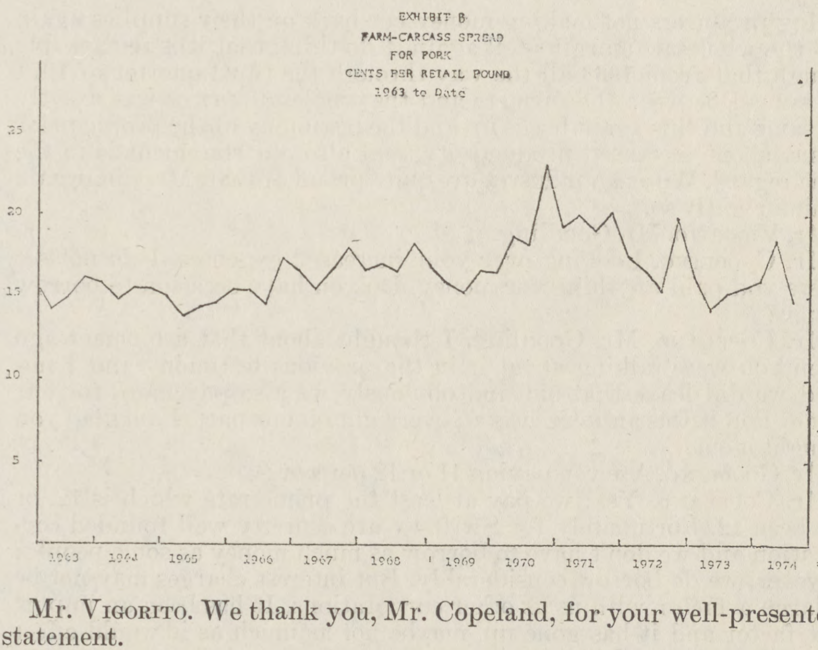
Third. The widely quoted farm-wholesale price spread for beef as now calculated, overstates that spread because of a lack of uniformity in market quotations for live cattle and wholesale dressed beef.

Fourth. The farm-wholesale spread has increased recently, but is necessary if the industry expects to draw on the necessary new capital to continue increasing efficiency and productivity.

In conclusion—we, at Swift, are very much concerned about the welfare of both the livestock producers and consumers. We feel that over the years we have made major contributions to both and we feel that through sound management, efficiency, and increased productivity, we can make more meaningful contributions in the future. We believe there will be understanding by those concerned about the economics of this fine industry.

I realize Mr. Chairman, that talking about yield grades on cattle and wholesale quotations may be confusing to many people and we tried our best to simplify that area and we would be glad to discuss this further if there are any questions in that regard, or to any other matter.





Mr. VIGORITO. We thank you, Mr. Copeland, for your well-presented statement.

Would you be good enough to comment on exhibit A?

Mr. COPELAND. Yes.

Mr. VIGORITO. Do you have that?

Mr. COPELAND. Yes. You know we did go back to 1963 and we were quite proud of the fact that we were able to hold this margin around 7 cents in the spread between the farm and the wholesale market of beef and it did jump up sharply in the last half of 1973 and it has continued to be much higher this year. The main reasons are because we had to cover these additional costs that I mentioned in my report.

We have increased our profits somewhat but you have to remember that in 1973 and 1972, also, we were under price controls, and there was a period in 1973 when the live cattle prices which were not controlled, while the dressed beef prices were controlled, we were at a substantial loss in our industry for about 2 months. We closed about two-thirds of our plants and continued to operate only those that we felt had to be operated to take care of our customers. At that time we were paying high prices for live cattle, selling beef at our ceiling prices at rather substantial losses. So obviously this year we have done better, at least in those two periods. It also helps explain previous testimony as to why the high percentage of retail grocery baskets went back to the farm during that quarter, the third quarter of 1973, as compared to the present time.

Mr. VIGORITO. Your exhibit B, pork, farm carcasses spread for pork, seems to be more erratic. Why is that?

Mr. COPELAND. Pork production varies more than beef production does and these peaks and valleys usually represent the times of high supplies of hogs being marketed and back down during times of low production of hogs. If you will notice in 1970–71 the two margin lines were wider and that was a time when we had record production of hogs.

Hog producers not making money cut back on their supplies again and the wholesale margins fell again. I do think that it is remarkable though that from 1963 all the way through the third quarter of 1974 the spread between the farmers and the wholesale prices was exactly the same and this again backs up and the testimony of the people prior to me, about increased productivity, and also our statement is in the same regard. We as an industry are quite proud of that, Mr. Chairman, I think rightly so.

Mr. VIGORITO. Mr. Goodling.

Mr. GOODLING. Looking over your increased expenses, I do not see where you paid anything for money. Do you have occasion to borrow money?

Mr. COPELAND. Mr. Goodling, I thought about that a moment ago when you were talking about it in the previous testimony and I noticed we did leave that out and obviously we also pay more for our money and it was an item, it is an oversight on our part. I am glad you brought it out.

Mr. GOODLING. Are you paying 11 or 12 percent?

Mr. COPELAND. Yes; we pay at least the prime rate which is 12, or has been 12. Fortunately for Swift we are a pretty well founded corporation and we don't have to borrow as much money as some people; however, we do borrow considerably. But interest charges may not be as large a factor with us as other corporations. It has been an important factor and it has gone up, maybe not as much as it would effect some other meatpackers.

Mr. GOODLING. I assume you sell to chains. Is that correct?

Mr. COPELAND. Yes.

Mr. GOODLING. When live cattle prices dropped to 35 cents to 37 cents, I think they were that low, in fact, I know they were down at least to 37 cents, did you drop your prices appreciably to chains?

Mr. COPELAND. Yes.

Usually the wholesale market and live prices work in the same pattern, not necessarily in the same day, but very shortly.

Mr. GOODLING. Well, all of us know that there is entirely too big a spread between what the producer gets and what the consumer pays.

Would you like to comment on where, in your opinion, this spread lies and is anybody making too much money?

Mr. COPELAND. Mr. Goodling, I would be out of order to speak to what the retailers are going to testify to I understand on November 19. I would rather keep my remarks to my own corporation and I think I have tried to do that.

As I pointed out, before, we are paying 89 percent of what we receive goes back to the producer. That leaves only 11 percent to cover all other costs and a profit. I hope that I have properly emphasized a need in our industry for additional profits.

I don't believe that the meatpacking industry is making exorbitant profits in 1974. I know in our own corporation we certainly haven't made exorbitant profits in 1974.

We need to make more if we continue to make the investments necessary to keep our industry modern and our plants efficient.

It may be a surprise to some people how much it really costs to build a new meatpacking plant today. To build just one medium size plant today it would take more than our entire profits in the beef business this year at Swift. We have got to have more profits if we are going to continue to keep our facilities in good shape and keep people putting money into the meat industry. One cent out of the dollar is a very small amount. I wish all industries could operate on that same basis. Maybe our costs wouldn't be up so high.

Mr. GOODLING. I am for the free enterprise system. I realize that no corporation, nobody other than Government can continue to spend more than it takes in year after year. Apparently we have been able to do that. But I don't know how we are going to continue to do it. I am an alarmist in that respect. The way we are spending money irresponsibly in the Government cannot go on indefinitely. As I say, I realized that you people must have a profit, everybody along the lines must have a profit. But what we are interested in, what this committee is interested in is attempting to find out if anybody is making excessive profits. It is going to be a hard answer to come by. I realize that. But we are going to continue to try.

Mr. COPELAND. Well, I hope that my testimony sheds some light on that. We tried to be as factual as we could. We even pointed out our increased gross income per head on beef, for example. It was up over $7 this year. And we tell you again that a good part of that went to cover extra expenses, but we did have some extra profit this year compared to 1973 when we were operating under controls.

Mr. GOODLING. All of us realize the farmer cannot afford to pay 55 to 65 cents for feeder cattle, then sell them for 35 and 40 cents a pound.

Mr. COPELAND. He sure can't. We are quite concerned about that.

There have been substantial losses in the feeding this past year and it is still on-going.

Mr. GOODLING. What do you predict regarding the supply of beef in the next 2 years?

Mr. Copeland. I think we are going to have a two-way kind of beef for the next 2 years. We have had a rapid build up over the past several years in cattle. This year we have an all time record of total cattle on farms. The build up has probably been too great, and this is part of the reason we are having depressed prices at the producer level.

We will probably be liquidating marginal cows and some low-class cattle. That meat will be coming on the market in much greater quantities than it has been in the last few years. That goes into hamburger and sausage items, for manufacturing items. We definitely will have more of that kind of beef. At this time we are faced with the high cost of feed and we could have less highly finished cattle, less than we have seen the last 2 years. We do have a big supply of highly finished cattle this year, continuing currently, supplemented by the lower grading meat being marketed, and it has lowered the total beef market.

Mr. Goodling. Do you have any idea of how much breeding stock has been disposed of? I have heard so many different reports.

Mr. Copeland. Not very much yet. They have started cows and cow slaughter is up about 10 or 11 percent this year but the numbers are not overwhelming at this time. I am sure that a lot of the older breeding stock will be liquidated in the next year or two. The main reason is that the calves aren't bringing enough money to justify keeping any kind of a marginal cow on a farm or ranch today.

Mr. Goodling. Are the old breeding stocks going to be replaced by young stock?

Mr. Copeland. We probably will reduce the total inventory on the farms and ranches in the next couple of years, but we will still have a substantial base. We have got a lot of cattle in this country.

Mr. Goodling. Do you buy all of your cattle or are you in involved in feeder lots?

Mr. Copeland. We feed about 6 percent of our slaughter. We buy all of the rest on the open market.

Mr. Goodling. I don't think I have any more questions, Mr. Chairman.

Mr. Vigorito. Thank you, Mr. Goodling.

I wish to thank you, Mr. Copeland, for your appearance today. The morning progressed very satisfactorily.

I wish to state at this time that we will continue the hearings on November 19. I am happy to say that the second invitation issued to some super market chains has been accepted and they will be here on November 19, and that is primarily the A. & P., Safeway, Giant, and Kroeger and also Armour Food Corp. Thank you very much.

Mr. Copeland. Thank you.

Mr. Vigorito. Is there anybody else in the room who wishes to be heard on this subject?

If not, the committee stands adjourned until 10 a.m., Tuesday, November 19.

[Whereupon, at 11:08 a.m. the subcommittee adjourned.]

RISING COST OF MEAT

TUESDAY, NOVEMBER 19, 1974

House of Representatives,
Subcommittee on Domestic Marketing
and Consumer Relations of the
Committee on Agriculture,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:03 a.m., in room 1301, Longworth House Office Building, Hon. Joseph P. Vigorito (chairman of the subcommittee) presiding.

Present: Representatives Vigorito, Foley, Sisk, Denholm, Matsunaga, Goodling, Findley, Symms, and Johnson.

Also present: Representatives Poage (chairman of the full committee), Jones of Tennessee, Mathis, Bergland, Brown, Bowen, Litton, Gunter, Wampler, Mayne, Zwach, Sebelius, Baker, Young, Madigan, and Peyser.

John Rainbolt, associate counsel; Steve Allen, staff consultant; Steve Pringle, staff assistant; and Anita Brown, staff assistant.

Mr. Vigorito. The Domestic Marketing and Consumer Relations Subcommittee of the Agriculture Committee is now in session.

In the interests of saving time, I would like to have the two meatpackers and processors give us their information first and then sit together so they can be questioned at the same time. Following that, we will have the representatives of the four supermarkets present their statements and then sit together and we will ask questions of the four of them. I think we can cover more ground quickly that way.

The purpose of these meetings that we are having is to try to find out why there is a continuing spread between what the farmer receives and what the housewife has to pay. We know that the farmer received his high price over a year ago. In the meantime, the prices farmers receive have dropped 40 to 50 percent and yet the retail price of meat has declined only slightly.

So the first witness we have today will be Dr. Clifton Cox, president, Armour Food Co., Phoenix, Ariz.

STATEMENT OF CLIFTON B. COX, PRESIDENT, ARMOUR FOOD CO., PHOENIX, ARIZ.

Mr. Vigorito. Dr. Cox.

Mr. Cox. Yes. I am here.

Mr. Chairman, as you said, I am Clifton B. Cox, president of Armour Food Co. Our headquarters are in Phoenix, Ariz., and we have 35 major plants located throughout the United States where we dress livestock and process meets. We are a major producer of fresh beef, pork, lamb, veal, and poultry. We also are one of the country's largest marketers of processed meats.

I also am a member of the board of directors and executive committee of the American Meat Institute and served for the past 3 years as the chairman of this national industry association.

For 10 years before joining Armour in 1960, I was professor of agricultural economics at Purdue University and hold my doctorate degree in agricultural economics from that institution. In 1973, I served as a member of the Food Advisory Committee to the Cost of Living Council.

I appreciate the opportunity to appear before this committee to discuss the cost of meat from the farm to the retailer. We are all aware, of course, of the spiraling costs not only of food, but also of everything else we buy. Food, naturally, is of great concern because it is essential and because it is bought so frequently that the price fluctuations are more noticeable to consumers.

At this point, I think it would be appropriate to point out that although meat prices are above the levels consumers were accustomed to only a couple of years ago, they are lower today than a year ago. While there is no assurance that they will remain at these levels—as a matter of fact it is likely they will go up—I believe that these fluctuations show how well the competitive system works in the meat industry. When live animals are in short supply, the price will rise from the livestock producers through the food store and when the supply of animals increases, the price declines and we've seen that.

It seems to me that the controls and other methods of trying to reduce meat prices artificially have had an adverse effect in the long run. Ceiling prices have discouraged farmers from raising animals and have reduced the supply. I believe very soon we are going to see the effects of this in higher animal prices and consequently higher retail prices for meat.

High meat prices are of great concern to everyone because we are all consumers of meat, but those of us who are producers, processors, or retailers of meat have additional vital concerns. We want lower meat prices because the lower prices are, the more will be consumed and more efficient farms, plants, and distribution centers become. However, we need adequate prices to cover the costs of providing the meat. The farmer cannot raise livestock at a loss and survive. Neither can the processor operate at a loss and survive.

The farmer has to have an adequate spread between his costs and his selling prices to stay in business. Labor has to earn more than the cost of living to keep on working. And the processor has to have at least some margin over his costs.

Quite properly, there is great concern over the increased spread between livestock prices and the cost of meat in the supermarket, and I understand examination of the reasons for it is one of the principal reasons for these hearings.

Basically, we buy livestock from farmers and other producers, slaughter the animals, and further process the meat before selling it to retailers. Our cost, therefore, starts with the farm price and our revenue is derived from wholesale prices. It would appear that if the spread increased between farm prices and wholesale prices, we would make more profits. However, this assumption overlooks the cost of what we contribute to the meat sold at wholesale—the cost to slaughter, to divide into salable cuts, to process into bacon and sausage, to package, sell, and deliver our output. In other words, the formula for a gain or loss for us is wholesale prices less the sum of farm prices and operating costs.

To say the spread between farm and wholesale prices is too high without knowing the operating costs is like telling the housewife that her husband's income has doubled over a period of time without computing the increased cost of food, housing, and clothing.

The USDA figures for farm and wholesale prices are available to this committee and I am sure have been thoroughly studied. These numbers do not include operating costs and, therefore, leave out a basic part of the profit or loss formula.

I cannot fill in the missing data for the entire industry, but I can tell you the operating experience of Armour Food Co. during 1973 and the first 9 months of 1974 which I assume is generally characteristic of similar companies during the same period. It would seem data on a per pound basis would be the most meaningful to your studies and, therefore, the figures that I present are on the per pound basis. I am submitting a table that points out the operating costs of Armour Food Co. It shows that during the full year of 1973, our sales per pound of meat were 64.42 cents. This year, for the first 9 months, it was 61.68 cents. Therefore, the meat price that we handle has gone down about 2¾ cents.

The cost that we pay for raw materials, that is, livestock and other raw materials, has also gone down. During the year 1973 the total cost of raw materials was slightly under 53 cents, leaving us a margin of 11.72 cents. The first 9 months the raw materials had gone down to 48 cents, just about 49 cents, leaving us an increased margin of up to 12.69 cents. This is per pound.

Our revenue available was nearly a cent more in the margin area, first 9 months of this year, over 1973.

Now, operating costs, and I want—the table includes a detailed breakdown of the operating costs—to indicate that our costs went up from 10.65 in 1963 to 12.12 in the first 9 months of 1974—1973 and 1974. Or our costs went up, operating cost, went up 1.47 cents or just about a penny and a half. That gave us a profit before income tax in 1973 for the full year of 1.07 cents per pound. A penny a pound. This year, this first 9 months, a half a cent, or 0.57 cent, per pound, or our profit went down before taxes a half a cent.

Our income tax, of course, similarly was cut in about half. Last year we paid nearly a half a cent income tax. This year we will pay about a quarter of a cent. So our tax per pound has gone down.

[The table referred to follows:]

Operations of Total Armour Food Company

	Per Pound Sold		
	Nine Months 1974	Full Year 1973	Change
Sales	$.6168	$.6442	$-.0274
Cost of Raw Material			
Livestock	.3575	.3894	-.0319
All Other Raw Material	.1324	.1376	-.0052
Total Raw Material Costs	.4899	.5270	-.0371
Revenue Available for our Operations	.1269	.1172	+.0097
Operating Costs			
Wages and Benefits	.0677	.0619	+.0058
Packaging Supplies	.0180	.0154	+.0026
Operating Supplies	.0044	.0036	+.0008
Utilities	.0032	.0027	+.0005
Depreciation, Taxes, etc.	.0082	.0076	+.0006
Purchased Services	.0099	.0086	+.0013
Interest	.0037	.0025	+.0012
Other	.0061	.0042	+.0019
Total Operating Costs	.1212	.1065	+.0147
Profit before Income Tax	.0057	.0107	-.0050
Income Tax	.0026	.0049	-.0023
Net Income	$.0031	$.0058	$-.0027

Mr. Cox. These above figures are taken directly from our financial statements and are presented to show for our company, the missing part of a comparison of farm and wholesale prices, namely, operating costs. As I pointed out, our spread between sales and what we paid for livestock and raw materials went up almost 1 cent a pound, from 11.72 to 12.69 cents, while operating costs advanced 1.47 cents, from 10.65 to 12.12 cents.

I also pointed out that the bottom line result of all this is that in the first 9 months of 1974, Armour Food Co. made a profit of about three-tenths of 1 cent per pound of meat. For the full year last year, our profits were almost double that but still only a little more than one-half a cent. If Armour Food Co. had realized no profits at all in the first 9 months of this year, it would have made a difference of less than 1 cent for every 3 pounds of meat we sold. To put meat processors in a loss position would have no real effect on meat prices but might destroy a vital segment of the food producing mechanism.

I know that some may think if profits are low in processing of meat, our expenses must be too high and we are not doing our job efficiently. Nothing could be farther from the truth. As a matter of fact, only the extreme efficiency of the meat processing industry keeps the price of meat from being higher still to the consumer or the price of animals lower to the farmer, or both.

Our company and many others invest millions of dollars each year in new and remodeled facilities. We are constantly installing new, more efficient equipment. We are always seeking, through research, new methods and procedures to be more efficient and to lower operating costs.

The meat industry is a highly competitive one with profit levels historically below 1 percent on sales, well below the average of business in general and far below those of most other segments of the food industry.

I believe this committee would have to look far and wide to find another industry as efficient as the meat processing industry and this has benefited both the livestock producer and the consumer.

We have always been an efficient industry. You have heard the old saying that the packer uses "every part of the pig but the squeal." Even in the early history of our industry management found ways to reduce costs.

At the advent of refrigerated distribution systems, we began moving our processing centers from the major cities into the areas where the livestock were grown to further reduce distribution costs.

For 10 years between 1963 and 1973, according to USDA data, our industry continued to improve production efficiency so that every operating cost increase was absorbed without increasing the spread between the farm to wholesale price. This, I believe, is testimony to the efficiency of the meat industry.

This year, however, the spread has increased, but as I showed you earlier, even with this increased spread, our profits have been cut almost in half due to the rapidly escalating operating costs.

We recognize that people are distressed by the cost of food, particularly meat. Meat has always been the single most important and expensive part of the food budget and as such becomes to some a symbol of inflation. We will continue to do everything in our power to make a meaningful contribution to reasonable meat prices. Our contribution will come from processing efficiency—getting the most food value out of each animal raised by farmers. This is what we have spent over a hundred years doing, but the impact of our efforts is minor compared with the effect of higher livestock costs. The way to reduce livestock costs is to increase their production. The farmer must be encouraged to produce more, and the only way to encourage him is to give him a profit margin over his costs.

We ask that programs be strengthened to stimulate the production of feed grains in this country. The means of fighting high prices in this industry are the same as in the past—increase supplies and our competitive marketing system will do its job.

We appreciate the opportunity to talk with you about the economics of the meat industry, especially as it applies to Armour Food Co. We hope we have been able to give you a picture of how the meat industry has done a fine job on behalf of both the consumer and the livestock producer.

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you, Dr. Cox.

If you will wait until the representatives from the Wilson Co. give their testimony and then we will call you back for questions.

Mr. COX. Fine. Thank you.

Mr. VIGORITO. Thank you.

Our next witness is Dr. Breidenstein, Vice President of Wilson & Co., Oklahoma City, Oklahoma.

STATEMENT OF BURDETTE C. BREIDENSTEIN, VICE PRESIDENT, WILSON & CO., OKLAHOMA CITY, OKLA.

Mr. BREIDENSTEIN. Thank you, Mr. Chairman, and gentlemen.

My name is Burdette Breidenstein. I am a vice president of Wilson & Co., with our corporate headquarters located at Oklahoma City, Okla. My primary responsibilities at Wilson include beef operations and research. Prior to my association with Wilson & Co., I was head of the meat science division in the College of Agriculture at the University of Illinois.

Our company employs about 16,000 people and operates 23 major plants located throughout the United States with beef slaughtering facilities at seven locations; hog slaughtering facilities at 11 plants; lamb slaughtering facilities at 6 locations; sausage processing at 11 plants and 4 integrated broiler production and processing complexes.

It is our earnest desire to be helpful to the committee as it endeavors to shed light on "the meat price spread." As we understand the purpose of these hearings, the Committee wishes to learn the extent that margins have been widening and, as a member put it succinctly at an earlier session, to determine whether ". . . somewhere along the line, somebody is making too much profit."

Looking first at our total company's pretax profits, they were $1.4 million for the first 9 months of the 1974 calendar year, compared with $23.1 million during the corresponding period of 1973. Net sales were about $1.5 billion in each year. In each of the three largest product sectors of our business—beef, pork, and broilers—profitable operations in 1973 were followed by significant losses in 1974.

With respect to Wilson's gross margin experience, the key facts can be covered rather quickly, keeping in mind that our gross margin basically means the difference between what is paid for a given kind of livestock and what is received for the products after the slaughtering process. Since the committee has been especially interested in probing the significance of the widening price spreads on beef, as revealed by the series reported by the U.S. Department of Agriculture, we will compare our own company gross margins directly with the USDA data. This has been done in exhibit 1.

May we preface our comments on exhibit 1 by pointing out the main reason these data are shown on an index basis. Due purely to differences in definition, the USDA spread will be wider than Wilson's at any given time. But this is not really germane to our prime purpose here, which is to focus attention on the changes over several time periods. So, looking at the first line with the USDA data, it is immediately apparent that beef margins by the first half of 1974 were 49 percent wider than in the base year of 1971—as USDA calculated it. At first glance, this is a startling increase, considerably more than the 20 to 30 percent increase in most expenses that were experienced over this time period in the cattle abattoir operation.

However, the second line of exhibit 1 tells an entirely different story. This is Wilson's actual gross-margin experience. Here, there is no evidence of a sharply widening spread, comparing 1974 with earlier time periods. In fact, the 10 percent increase in gross margins that we achieved by the July-September quarter of 1974 (over the base year of 1971) was much less than our increase in expenses.

EXHIBIT I.—BEEF PRICE "SPREADS," (FARM-TO-WHOLESALE)

Source	1971	1972	1973	1st half 1974	3d quarter 1974
U.S.D.A.	100	97	103	149	137
Wilson	100	100	120	118	110

Note: Index, 1971 equal 100.

We have made no comprehensive study to try and determine what caused the USDA series to be so different from our actual experience, but one cannot help observing that the largest discrepancy has come in 1974. Two factors immediately come to mind htat have been unique to the current year. First, and perhaps of lesser importance, cattle and beef prices have generally trended downward this year, whereas they moved upward through most the 1971–73 period. Other things equal, declining prices adversely affect our gross margins in two ways. There is the obvious loss from declining inventory values. But also involved is the fact that, for all of our customers combined, we sell our beef to them a few days after the live cattle had been purchased. This lag-time can be important. Since today's live cattle market is primarily geared to today's wholesale beef price, every day's delay in the sale of beef will have the effect of narrowing the gross margin when one is moving through a period of declining prices. Now, in contrast, USDA calculates its series on price spreads—as we understand it—by relating today's live price with today's beef market. Thus, their margins could be wider than ours in periods of price decline, with the reverse being true, of course, in periods of advancing markets.

The second factor, however, may have been a potentially more important factor in 1974, leading to a major overstatement of actual margins by USDA. Mr. Copeland of Swift & Co. described it briefly in his statement to this committee on October 22d, but it seems important enough to elaborate somewhat further.

In our exhibit II, we show two columns, one simulating USDA procedures, while the other reflects Wilson's experience. In both cases, we start out with an identical load of steers costing $39.55 per live hundredweight (which was the average of choice steer prices at

Omaha in a recent week, as reported by the USDA Market News). USDA then assumes that all the carcasses from this load will be choice, yield grade 3, and sold at $64.25 per dressed hundredweight. (Again, as quoted by USDA Market News, Midwest basis.) In sharp contrast, Wilson's recent experience would show that almost one-half of these steers would grade less than choice, yield grade 3, and would be discounted in price as shown in the upper table in exhibit II, with a weighted average value per hundredweight for the load of only $62.10.

EXHIBIT II

Comparison of Gross Margin ("Price Spread") Calculations

Assume: A typical Choice-Grade group of steers purchased in recent week at Omaha, at cost of $39.55 per live hundredweight --

Average Carcass Value of Above Steers -

Quality Grade	Yield Grade	Carcass Price	U.S.D.A. Percent	U.S.D.A. Value	Wilson Percent	Wilson Value
Choice	2	65.25			4	65.25
Choice	3	64.25	100	64.25	49	64.25
Choice	4	59.75			18	59.75
Choice	5	54.25			4	54.25
Good	2-4	60.25			25	60.25
Average Carcass Value (per Dressed Cwt.)				$64.25		$62.10

Calculations of Margins

	U.S.D.A.	WILSON
	(per Live Cwt.)	
Carcass Value*	$39.85	$38.50
Plus by-product value	3.27	3.27
Equals Total Value of Products	43.12	41.77
Less Cost of Live Steer	39.55	39.55
GROSS MARGIN	3.57	2.22

(3.57 divided by 2.22 = 161%)

*Above average carcass prices times 62% yield.

This difference of $2.15 is essentially the heart of the problem as we see it. The lower table simply follows through with the remaining calculations to arrive at a gross margin, expressed here on a live hundredweight basis, reflecting a difference in live terms of $1.35, and showing hte USDA margin to be over 60 percent wider than the Wilson experience. As touched on earlier, we believe this measurement problem was much more troublesome in 1974 than in earlier years, due to the many more overfinished cattle that we have had this year, and that had to be sold at much sharper discounts than ever before.

We will not risk belaboring this matter with further judgments and opinions as to why the USDA price-spread data has departed so far from the real world, but we are quite concerned as to what might happen over the next couple of years if these data continue to be misleading and if they are then used by public agencies in formulating important economic decisions.

Let us take just one illustration. Many informed observers in our industry believe that cattle slaughter will expand substantially during the next 2 to 3 years. If so, and if actual packer slaughter margins widen materially as in the similar stage of past cattle cycles, then continued overstatement of those wider margins could potentially lead to much divisiveness and discord, to the detriment of all concerned.

In one sense, explanation of such actual widening of margins, in terms of their sound and basic economic causes, should not be difficult. Yet we know that economic education can be a frustratingly slow process, involving as it does some absorption of semi-technical industry processes.

For instance, let us assume that sometime in the years just ahead, slaughter-cattle marketings exceed the straight-time capacity of the industry's plants. At first glance, this creates no problem, as many plants can operate on an overtime basis without difficulty in terms of existing physical facilities. However, each hour of overtime means a 50 percent increase in wage rates under existing labor contracts. Inevitably, gross margins must widen to cover such overtime costs. These are, of course, in addition to increased expenses resulting from the overall inflationary process as a result of deficit Government spending and an excessive growth in the country's money supply. In addition, there is a relatively new group of expenses that are skyrocketing, namely, those associated with newer governmental regulations such as those of OSHA and EPA.

May we conclude with these points:

1. Wilson has not experienced a material widening of gross margins in its beef operations—based on an analysis of actual company operating results from 1971 to the present.

2. USDA statistics on the industry's farm-to-carcass beef margins, showing a dramatic increase this year, appear highly misleading, in that they have not accurately reflected actual operating experience.

3. We agree completely that consumer and producer welfare must be fully protected, but we firmly believe that this is done with maximum efficiency and effectiveness through the competitive forces of free enterprise. In the meat packing industry, there are over 2,000 firms producing meat and meat products for the American consuming public. There have clearly been no formidable obstacles to entry into the industry, and intense competition has been a result.

4. We would like to express our concern over the cost to consumers, in the form of millions of tax dollars, arising from the multiplicity of governmental agencies pursuing duplicate and overlapping investigations of the food industry. For example, we now hear of no less than

four agencies carrying on concurrent investigations: The Federal Trade Commission; the Department of Justice; the Council on Wage and Price Stability; and the U.S. Department of Agriculture. If this committee could provide for a consolidation of these efforts, the benefits to not only the consuming public but to our industry, would be substantial.

5. While first-hand experience has taught us that vigorous competition at the meat packer and processor levels amply protects both producer and consumer from exploitation, we welcome Government review at appropriate intervals, to insure against any conceivable development of noncompetitive conditions.

Thank you.

Mr. VIGORITO. Thank you very much for your well presented statement.

Will Dr. Cox please come to the table so that questioning will begin.

Congressman Sisk, do you have a question?

Mr. SISK. Mr. Chairman, very brief questions. Doctor Cox, you indicate your costs of raw material and your sale price under cost of raw materials for 1973, you quote a 38.94 figure, almost 39 cents a pound.

Now, that I assume is an average across-the-board. That has been averaged out for all livestock? How is that figure arrived at, Doctor Cox?

Mr. COX. We actually took a pound of meat that we sell, so it is on a pound sold rather than a pound purchased, and of the pound sold, a portion of that is meat we buy from someone else, partially processed, or in our mix. So we actually paid on that pound of livestock there 0.3894 in 1973, 0.3575 in 1975. If we sold a portion of the pound of the meat that is a portion of it we paid directly to the farmer on the livestock.

Mr. SISK. On the sales then, for example, you began using the year 1973, or you can use 1974, either way, but 1973, for example, on sales, 64—almost 64.5 cents a pound. This was sales to the retail—the outlet, the major——

Mr. COX. That is all of our sales on a per pound basis. That is what we actually got for all of our product, average.

Mr. SISK. And the cost of freight or transportation, let's say, from Omaha, Phoenix, Oklahoma City or wherever that may have been processed, is an additional cost to the food chain? I am trying to, if possible, arrive at how these figures were obtained really and exactly what they represent in the way of averages, so we can get an idea of these margins, why they exist, is that price f.o.b. or, in other words, how is that price determined? What does that price really mean?

Mr. COX. This would include—just take our total books, so that it would include any freight that we pay or freight of either side. But actually in our accounting procedure we put in the cost of raw materials, our freight to the plant. That is hogs to the plant or cattle to the plant, if we do it. That is in the cost of raw materials. But in shipping out, of course, we have both ways. We have some that is delivered, some that is f.o.b. the plant. So whatever we do, this includes that figure.

Now, I would like—I should expand a little bit on this, all other raw material, because I don't think I gave you a clear picture there.

If we are making hot dogs, and I will use them as a point, part of that meat we slaughtered but other parts we might have bought, boned beef from somebody else. When you look at that total pound of hot dogs, well say if it happened to be our average, we would have paid 52.70 for meat in that hot dog and we get 64.42 for it. That is the difference in those two. But in freight specifically we do it both ways, you know, delivered and nondelivered.

Mr. SISK. I am not being critical in this question here because according to your figures I certainly understand your profit-loss situation doesn't show any substantial increase in profits. In fact, it looks like it has narrowed in 1974.

Mr. COX. It has.

Mr. SISK. As it shows. However, in the responsibility of this subcommittee for the American public we are going to have to somehow pin down where there is excessive spread, if in fact there is any. I am not saying there is. But if there is. And so really these figures here of 0.6168 for 1974 and 0.6442 for 1973 do not mean very much unless we can rationalize those figures against what, let's say, Safeway, A. & P., Giant, Kroger, or someone else is selling that for in New York, Washington, Cleveland, or wherever it may be. And as I understand, calculated in these may or may not be freight or transportation.

Mr. COX. Well, most of ours, I would say most of our product is delivered but we do have customers who have f.o.b. So to answer you specifically, on all of it the freight is in there, is not true, but we do have a big freight bill. As I remember the bill, it is nearly $100 million a year, something like that. So we have a freight bill and——

Mr. SISK. I assume that it is charged into your operating costs.

Mr. COX. That is in our operating costs, yes.

Mr. SISK. Mr. Chairman, one further question, if I could. I don't wish to impose on the time of the committee, but I would like to direct a question to Mr. Breidenstein.

I assume this other matter will be pursued further by other members of the committee, Doctor Cox.

Mr. Breidenstein, in your statement you say that in the meat packing industry there are over 2,000 firms producing meat and meat products for the American consuming public. Can you give me just quickly the six largest meat packers in the United States?

Mr. BREIDENSTEIN. Well, I think I can tell you those. I know the first three or four for certain, but, of course, Armour and Swift are two of the large ones. Wilson is one of the large ones. We are probably looking at Oscar Mayer in that group and Morrell. Possibly Cudahy. I don't recall the ranking——

Mr. SISK. As I recall, there are some six major companies. What percentage of the total meatpacking business in this country is controlled by the six major companies? Do you know approximately? Does it run somewhere in the 80 to 85 percent?

Mr. BREIDENSTEIN. No, it is not that high. I don't recall the exact figure.

Mr. SISK. Do you know what the percentage is?

Mr. BREIDENSTEIN. I do not.

Mr. SISK. I think, Mr. Chairman, it might be well to have these figures. They have been tossed about. The committee is attempting to meet its responsibilities, of course; there are certain charges from time to time as to what extent, for example, we develop a monopoly through the fact that a very few concerns primarily control the entire industry. I am not saying—I am not making a charge that they in fact do in this case—I am simply exploring the question as to the validity or lack of validity in such charges. And I hope you gentlemen understand that.

I think, Mr. Chairman, if it is possible, if we could get some information along this line, it might be helpful. These gentlemen can furnish it or we can try and get it from some other source.

Mr. BREIDENSTEIN. We can get it, Mr. Sisk, and I think perhaps it might be more helpful to look at it on an estimated breakdown. Just handed to me, the four largest in cattle account for 22 percent of the slaughter.

Mr. SISK. The four largest account for only 22 percent of the slaughter.

Mr. BREIDENSTEIN. In cattle.

Mr. SISK. In cattle. Mr. Chairman, I could ask a number of questions but I will withhold.

Mr. VIGORITO. Thank you.

Mr. Cox, can you tell me, in your statement you have other raw material costs. It seems to amount to about 30 percent of your livestock cost. Can you tell me what the other raw materials consist of?

Mr. COX. Yes. Mostly other meat. You see, we do not slaughter all the beef that we need for our system, so we purchase beef from other people. Or we are short in any other meat, and most of that is meat that we purchase from somebody else that we just don't slaughter ourselves.

Mr. VIGORITO. I see. Livestock is the category where you do the actual slaughtering.

Mr. COX. We actually do the slaughtering, yes.

Mr. VIGORITO. Thank you.

Mr. Goodling.

Mr. GOODLING. Thank you, Mr. Chairman. Last night I was attempting to watch the football game and read some of the testimony that came to my desk yesterday. I found the two were not compatible, so I turned off the TV set. I will admit that I am completely confused. The more I read, the more I hear, the more confused I become. There isn't any wonder to me why Congressmen and consumers are completely confused.

Whom are we to believe? USDA tells us one thing, you people come in here and tell us a different thing. I don't know the answer. I don't think any member on this committee knows the answer. Have you people ever attempted to rectify your differences between USDA and yourselves?

Mr. COX. Do you have a specific one you want to answer that?

Mr. GOODLING. Either one.

Mr. COX. First, USDA figures—Dr. Breidenstein did attempt in one place, but I did not—USDA figures are taken only at certain planes in the system. That is, they say this price, this price, and do not try to account for expenses during the interim period, and I tried to take a margin where we showed we increased a margin in 1974 from our actual records and showed that our expenses went up much more than that. So I don't know in part that I disagree with USDA. The margin went up but they do not calculate any cost. So they have left out, to me, a very vital part of the explanation.

Mr. GOODLING. I believe you will agree with me that this confusion is going to continue until we get two people talking the same language.

Mr. COX. I don't disagree with that. I don't see how I can change my line—if the figures in operating the company show what we have done, I figure the committee would want to know exactly how we have done in this margin area and that is the reason I presented these figures from our records.

Mr. GOODLING. I was going to ask this question from another witness that will appear later in the day but I think it should also be asked from the packers and the processors. Let me read just one sentence.

"USDA says that from a 620-pound steer carcass, Kroger sells 446 pounds, when in fact the retail yield is only 403 pounds."

What becomes of that 43 pounds? I would love to have that at today's meat prices.

Mr. BREIDENSTEIN. Well, I wouldn't want to get into a discussion of what the retailer cuts out of a cattle. I think it depends so much on the retailer's method and USDA arrives at a standard method which they say represents a standard cutout. That would not necessarily reflect any single retailer's program. All I am saying is it depends entirely how much bone you take out, how close you trim the cuts and that kind of thing and if the standard USDA uses assumes *x* amount of fat cover, Kroger or whoever else might be the case at point takes off more, then they will in fact sell a smaller tonnage per unit of input weight.

Mr. GOODLING. Are we ever going to reach the point where both are going to talk the same language, USDA, the processors, the retailers? To me this is ridiculous. None of us know where we are going.

Mr. BREIDENSTEIN. I don't think—just, you know, a personal comment, Mr. Congressman—I don't think that the USDA can describe all of the various circumstances and operating functions. They try to arrive, as I understand it, at something they say reasonably represents a broad spectrum. It would not reflect anything that any one person did, if I understand what they are doing correctly.

Mr. GOODLING. That is all at this time, Mr. Chairman.

Mr. VIGORITO. Frank? Mr. Denholm?

Mr. DENHOLM. Doctor Cox, how long have you been with Armour Food Co.?

Mr. COX. Since 1960.

Mr. DENHOLM. Were you prior to that time an economist at an educational intsitution?

Mr. COX. Yes. At Purdue University.

Mr. DENHOLM. Now, is it your testimony that you acquired livestock at about 3 cents a pound less in 1974 than you did in 1973?

Mr. COX. That is, a part of the pound that was bought from livestock is about 3 cents, yes.

Mr. DENHOLM. Well, how did you acquire any of the rest of the pound for sale at your firm?

Mr. Cox. I said we bought some meat outside, too.

Mr. Denholm. Where did you acquire that meat?

Mr. Cox. From anyone who has meat to sell.

Mr. Denholm. Who would that ordinarily and typically be in the ordinary course of business?

Mr. Cox. It depends on the product. We buy beef from a number of the large beef companies. We buy bone beef from some of the smaller bone cattle slaughterers and boners. So we will buy in that area.

Mr. Denholm. Can you determine from your accounting procedures whether it is domestic or imported meats?

Mr. Cox. We could determine that but we are a very light purchaser of imported meats totally.

Mr. Denholm. Does the statistical data that you have presented primarily represents domestic meats purchased from producers in America?

Mr. Cox. Well, I would say basically this is true, although there could be—there is a little imported meat in it, but percentagewise very small.

Mr. Denholm. Is the acquisition cost of imported meat higher or lower than domestic produced meat?

Mr. Cox. Well, Mr. Denholm, any time we buy it is lower. I mean, otherwise we wouldn't buy it.

Mr. Denholm. Do you blend imported meat with domestic acquired meats?

Mr. Cox. When you say "blend," what do you——

Mr. Denholm. Do you mix imported meat with domestic meat before you sell it by the pound?

Mr. Cox. Well, in certain cases the answer is yes, if it is going into certain products. In others we actually do sell some frozen—I mean imported meat to others. We act as a broker sometimes. So we do not mix it with the other things.

Mr. Denholm. Is the cost of imported meat included in listed entry as "all other raw materials" in the accounting report of your prepared testimony of record?

Mr. Cox. It could, yes. That would be the place for it.

Mr. Denholm. Where can one obtain actual information on the breakdown of the average figures that you included on page 5 of your testimony?

Mr. Cox. Specifically did you have something in mind?

Mr. Denholm. Yes, I want to know how much imported meat is actually in your overall operations and you have failed to answer that at the present time. Can you answer——

Mr. Cox. No. I would have to look at some figures and do that. I have said it is a very, very small percentage of our total but there would be some in it. Now——

Mr. Denholm. Can you purchase that meat for less in your acquisition market, as to quality, in comparison to domestic meats? Is it higher quality or lower quality?

Mr. Cox. This is—I am not a food technologist in this area of quality. In our purchasing program we will buy imported meat mostly on a lean yield or protein yield so that we test it, so in protein or lean meat yield it will have to meet certain standards.

Mr. DENHOLM. What was the live weight price of Choice to Prime beef in January of 1974 and what did you pay for domestic choice to Prime carcass meat in January 1974?

Mr. COX. I would have to look at specific figures there. They are quoted daily but I didn't bring those quotations with me.

Mr. DENHOLM. Was it substantially more than it was in October or November of 1974?

Mr. COX. You know, we just run continuously, so to pick out 1 month and say how it compared, I just don't remember the exact figure, but this is available any time, so we can give it to you.

Mr. DENHOLM. I have those figures and I will recite them for you. The average price of liveweight beef in aJnuary was $48.25 per hundred weight.

Do you know what it is today?

Mr. COX. This is live cattle?

Mr. DENHOLM. Yes. Is it higher or lower?

Mr. COX. Well, I would think, and here I did not get the market yesterday nor today, but it is available—I would think it is in the neighborhood of $38 or $39.

Mr. DENHOLM. That is about $10 per hundred weight less, isn't it?

Mr. COX. Yes.

Mr. DENHOLM. That would be 10 cents a pound less, wouldn't it?

Mr. COX. It would be more—you see, you are going on live weight.

Mr. DENHOLM. Yes.

Mr. COX. That is 10 cents a pound live weight but that doesn't translate always into 10 cents a pound dressed weight.

Mr. DENHOLM. How do you acquire it, dead or alive?

Mr. COX. We buy the meat alive.

Mr. DENHOLM. Is that your acquisition cost?

Mr. COX. Right.

Mr. DENHOLM. What is puzzling about that, Mr. Cox?

Mr. COX. Nothing puzzling.

Mr. DENHOLM. The differential between live weight cost now and last January is about $10 per cub. less.

Mr. COX. I thought you said—one place you said animals, another meat.

Mr. DENHOLM. I am talking about the live weight price and your acquisition cost. Now you buy your animals in the live weight and then slaughter them for resale, don't you?

Mr. COX. Right. We buy animals live.

Mr. DENHOLM. Do you agree that your live weight cost of animals is at least $10 cwt. or 10 cents a pound less than it was in January 1974?

Mr. COX. Essentially, and I am using your statement as the basis for January.

Mr. DENHOLM. Yes, I understand.

Mr. COX. Yes.

Mr. DENHOLM. Now, what change has occured in the retail or your wholesale market in the same time frame for processed meat?

Mr. COX. You are talking about the carcass that we sell?

Mr. DENHOLM. Yes.

Mr. Cox. If you can give me the January price, I can give you the current price.

Mr. Denholm. Will you state the current price?

Mr. Cox. Yesterday morning it was 61 cents.

Mr. Denholm. Now, your operating cost is included in wages and benefits on page 5 of your prepared testimony, isn't it?

Mr. Cox. All of our salaries, wages and fringes.

Mr. Denholm. Have salaries increased in 1974 over 1973?

Mr. Cox. Yes.

Mr. Denholm. Does that include management as well as all other salaries paid?

Mr. Cox. This would include here all wages and salaries in the food company.

Mr. Denholm. Does it include salaries of the corporate officers?

Mr. Cox. Armour Food Company officers? Yes. Not Greyhound officers.

Mr. Denholm. Are you familiar with the stockholders' equity in Armour?

Mr. Cox. I don't understand the question.

Mr. Denholm. Are you familiar with the stockholders' equity in Armour? Armour is a corporation with stock issues and outstanding, isn't it?

Mr. Cox. Yes.

Mr. Denholm. Were dividends declared and paid this year?

Mr. Cox. Well, it has only one stockholder and that is Greyhound.

Mr. Denholm. What happened to ownership interests in 1974 over 1973? Did earnings go up or down?

Mr. Cox. Interest rate or dividend rate?

Mr. Denholm. Both. How did it affect ownership?

Mr. Cox. I think only 100——

Mr. Denholm. What happened to ownership? Will the economic benefit be increased in 1974 over 1973?

Mr. Cox. No. Less. Earnings were less. So they benefited less.

Mr. Denholm. Thank you. Mr. Chairman, I shall yield in the interest of time for other members to inquire of the witnesses.

Mr. Vigorito. Thank you.

Mr. Findley, do you have a question? Let's make it brief because I want to get into the food chains.

Mr. Findley. Mr. Chairman—I assume that neither of the firms you represent sell at retail. Am I correct there?

Mr. Cox. That is true with us.

Mr. Breidenstein. Sell at retail, you say?

Mr. Findley. Yes.

Mr. Breidenstein That is true.

Mr. Findley. Do both of you sell into the New York City market?

Mr. Breidenstein. We do.

Mr. Cox. We do.

Mr. Findley. Are you able to sell boxed beef there?

Mr. Breidenstein. Our experience has been very limited. That is to say, we have been able to do a very limited amount of it. It depends on if you define the Metropolitan New York area to include New Jersey, it would increase some from what I just said, but it is just limited.

Mr. Findley. How about you, Mr. Cox?

Mr. Cox. I don't have the figures, Mr. Findley, for selling directly into the New York market but we are similar to Wilson, very limited in that area.

Mr. Findley. There are requirements established, in effect, by unions in that area which prohibit the introduction of precut meats; am I correct?

Mr. Breidenstein. That is correct. I don't know the exact limitations but there are some limitations, yes.

Mr. Findley. Have you experienced those limitations, Mr. Cox?

Mr. Cox. I am not close enough to the sales force there to know specifically what limitations we have.

Mr. Findley. Do you know what this means in terms of cost to the consumer? In other words, how much more does the purchaser of meat on Manhattan pay as a result of these restrictive practices than would be the case if you were able to precut the meat on the assembly line and ship it directly?

Mr. Cox. I do not know the answer.

Mr. Breidenstein. Anything I could say would be a guess. I have read all the newspaper articles. I think it is a little hard to figure out exactly what the answer would be, but if the question is is there a significant saving in efficiencies by virtue of processing it on the assembly line, the answer is definitely yes.

Mr. Findley. Now, do you encounter this type restrictive practice in other markets?

Mr. Breidenstein. Yes, sir.

Mr. Findley. St. Louis, for example?

Mr. Breidenstein. St. Louis, Kansas City, St. Paul-Minneapolis, Chicago.

Mr. Findley. Where else in the country?

Mr. Breidenstein. Chicago. These are the only ones I can think of offhand where we have a definitive restriction or limitation on the part of the contract or union that says we cannot move in with less than a primal cut.

Mr. Findley. Could you just give an estimate of how much lower these meat products could be sold per pound for if the assembly line system were permitted?

Mr. Breidenstein. I have not looked at these recently but I will give you an estimate which is the best estimate I can give at this moment: Between \$12 and \$15 a head which, to go back to Mr. Goodling's question, I don't know exactly what base we would use as far as retailable products, you see. It would be in that 400- to 450-pound range on which that \$12 to \$15 per head would be realized.

Mr. Findley. But when urban consumers voice outrage about meat prices, this is a factor they ought to consider, am I correct?

Mr. Breidenstein. I think it should be considered, yes.

Mr. Findley. How quickly do your prices reflect changes in live cattle costs?

Mr. Breidenstein. Very quickly, within a matter of 24 to 48 hours for the most part. It depends to some extent upon our own inventory position. If, for example, the price was going down, we didn't think there was any reason for it, if we had clean coolers, so to speak, that is to say, very little in them, we would hold for a period.

Mr. FINDLEY. But if you decide on a new price which, let's say, is lower, you will within a period of a day or so mark down inventory, correct?

Mr. BREIDENSTEIN. Yes, sir.

Mr. FINDLEY. And if the price goes up, you of course, make up inventory?

Mr. BREIDENSTEIN. We operate on a daily basis, Mr. Findley, and it is—we make every attempt to make changes at least daily and sometimes within the day.

Mr. FINDLEY. Mr. Breidenstein, I read your statement carefully and I think that both of you gentlement have helped to shed light on the pricing of wholesale meats. The one thing that bothers me is your reference complaining about the investment of tax dollars in investigations of the food industry. I am sure you could add the investigative work of this subcommittee to the expenditure of tax dollars.

Just recently the Department of Justice, which you mentioned, prosecuted A. & P. and found that firm guilty of price fixing. I think that was in the public interest. It seems to me that responsible firms should welcome events like these hearings as a means of clarifying the facts about their industry. I am sure the average consumer thinks that the only factor you have to consider is the price of live cattle that you purchase. It is my understanding that that represents only about 50 percent of your cost. Am I correct?

Mr. COX. No.

Mr. FINDLEY. Is it lower than that?

Mr. COX. Higher.

Mr. FINDLEY. Higher. How much would it——

Mr. BREIDENSTEIN. It would be much higher. In the high 80's.

Mr. FINDLEY. In the high 80's?

Mr. BREIDENSTEIN. The purchases of livestock represents that proportion of cost.

Mr. FINDLEY. Now, the other 20 percent, have you experienced any reduction in these nonanimal costs in the last couple of years?

Mr. BREIDENSTEIN. I can think of no place where there has been a reduction in cost. I think of many where there have been increases.

Mr. FINDLEY. Do you have in prospect—are you optimistic that there will be any reduction in costs of these nonanimal items?

Mr. BREIDENSTEIN. I am not sure—well, in fact, I am sure that I am not qualified to make an appraisal on that but certainly from the recent experience one would expect these to continue to raise rather than decline.

Mr. FINDLEY. Can you give the consumer any reason for optimism? Will improved technology and efficiency in processing meat yield lower consumer prices in the near future? Are there opportunities for technological advance that you see right around the corner?

Mr. BREIDENSTEIN. Some to which you already alluded.

If we could move more toward centralized cutting there would be in my opinion definite savings and this is an area in which some improvement could be made, but I don't see any other mechanical devices, at least those with which I am familiar, that would come into the picture that would do this.

Mr. FINDLEY. Can you state what percentage of meat produced now is handled through centralized cutting?

Mr. BREIDENSTEIN. Well, the figures that are made, estimates, into the subject primarily state—now, let me hold it at that rather than going all the way to retail cuts—the figures generally quoted range between 55 and 60 percent and I don't see much reason to disagree with them.

Mr. FINDLEY. So that means that perhaps 40 percent of the meat now sold at the meat counter could be sold at a lower price to the consumer if centralized cutting were permitted?

Mr. BREIDENSTEIN. Yes.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. BREIDENSTEIN. Mr. Congressman, could I point out one thing with respect to our statement. My point 5 did say we recognize and accept the fact that appropriate intervals of investigation are desirable, and so I didn't want to leave you the impression we thought no investigation should be made.

Mr. FINDLEY. My wife is outraged by meat prices, by food prices generally, and I suspect yours is, too.

Mr. BREIDENSTEIN. Yes, she is.

Mr. FINDLEY. And the more we can get in the public domain facts and understanding about pricing of food the better off all of us would be.

Mr. BREIDENSTEIN. Yes.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. To follow through on a comment that Mr. Findley made, I wish to state that one reason for these hearings and one reason why we have these various Government agencies is to let you know that we are looking over your shoulder and if anything gets out of line, we want to know about it and we want the public to know about it. I don't expect any recommendations for legislation to come out from these hearings, but I do want the industry, from the producer down to the retailer, to know that we have an eye out—to look at the consumer's interest and the public in general.

Congressman——

Mr. DENHOLM. Mr. Chairman, will you yield for one question?

Mr. VIGORITO. One brief question.

Mr. DENHOLM. Doctor Cox, the wholesale-retail marketing price for the meat sold by packers was about the same in January as it is now. Do you agree or disagree with that? You are now acquiring it for about $10 per hundredweight less. How do you justify that as a reasonable cost (farm price level paid) against wholesale price deliveries?

Mr. COX. Well, I don't justify it because I have no basis for knowing—I just doubt it, you see, because our wholesale price, different from what Dr. Breidenstein said, we think our wholesale price man items items leads our farm price down, so we we are caught between the two, the farmers and others.

Mr. DENHOLM. My question is simple. If you are selling it for about the same price you did in January and acquiring it for $10 less I doubt your statement or your data is justified.

Mr. COX. I can't—from any of the figures that we have in our records here which are actual records of our operations, I don't find any margin like that, that goes up $10. So I just have no basis for commenting on the price of meat, that beef is the same now as then and livestock $10 less. I just don't have any basis.

Mr. DENHOLM. Does Doctor Breidenstein wish to respond to that question?

Mr. BREIDENSTEIN. I was just handed a figure. In January 1974, dressed market on beef 6700 is, carcass beef, 0.7440. This morning's quotation, 61½. Omaha basis.

Mr. DENHOLM. Very well. Thank you, sir.

Mr. COX. Yes. It would actually show a less margin.

Mr. DENHOLM. Thank you. That is all.

Mr. VIGORITO. Mr. Poage.

Mr. POAGE. Thank you, Mr. Chairman, but in the interest of time I do not want to ask questions at this time.

Mr. VIGORITO. Mr. Symms?

Mr. SYMMS. Thank you, Mr. Chairman, for having these hearings because I do think this is helpful to the public to find out what the problems are for both packers and retailers. I will just make one very brief question.

You mentioned that 100 percent of Armour is owned by Greyhound. Can you tell me if Greyhound owns any other food processing companies or businesses?

Mr. COX. Not food processing to my knowledge. If you are thinking of another packer, something of that nature, no.

Mr. SYMMS. Nothing else in the food business except Armour & Co.

Mr. COX. Well it has Greyhound food management that does institutional feeding in plants which is separate from Armour & Co.

Mr. SYMMS. I see. Thank you.

Thank you, Mr. Chairman.

Mr. GOODLING. One quickie, Mr. Chairman. I promise to take half a minute.

Mr. Breidenstein, you made one statement that interested me. You say, "Observers in our industry believe that cattle slaughter will expand substantially during the next 2 to 3 years." The information that this committee has is that a great deal of breeding stock was slaughtered and is not being replaced.

Mr. BREIDENSTEIN. There have been two phases in our operation, Mr. Congressman. Number 1, there was a period during which there was replacement of cows by younger heifers, which would, of course, delay, the production for some year or two. Recently, however, there has been significant reduction in cow numbers in our judgment because of the increased kill. So I think the point is that these cattle that are already here will be coming to the market in the upcoming months. Killing the cow will not take them away. So we have looked at record slaughters of cows. We have looked at some very high numbers of calves. But still, as we see it, there will be large numbers of cattle coming in the upcoming 8 to 10 months.

Mr. VIGORITO. Thank you very much for your presentation today.

Now, we will proceed to the first witness on the food chains, Mr. William Mitchell, president and chief executive officer of Safeway Stores, Oakland, Calif.

STATEMENT OF WILLIAM S. MITCHELL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SAFEWAY STORES, INC., OAKLAND, CALIF.; ACCOMPANIED BY RICHARD ODGERS, COUNSEL

Mr. MITCHELL. I have with me today Mr. Richard Odgers, attorney representing Safeway.

Mr. VIGORITO. Mr. Mitchell, proceed.

Mr. MITCHELL. Mr. Chairman and members of the committee, my name is Bill Mitchell. I am president of Safeway Stores, Inc. With your permission I would like to read a brief statement covering some of the matters in which I think this committee will be interested. After the statement I will be happy to try to answer any questions the chairman or other committee members may care to ask.

Before getting into my statement, I would like to clear up an apparent misunderstanding regarding my appearance at these hearings. To the best of my knowledge Safeway has never refused to appear before any congressional committee and a subpena has never been required to obtain my cooperation. The fact is that I did not receive an invitation to attend these hearings until October 7 and I accepted that invitation immediately. Prior to October 7, I had heard nothing but a rumor that your committee was going to invite retailers to appear, followed by reports that Safeway had been publicly accused of refusing to appear and refusing to submit a statement. You have my personal assurance that we will cooperate now as we have in the past and that I would have been here on October 3 if I had known that the committee wished me to appear on that date.

My brief comments will cover four areas: (1) beef price spreads; (2) gross profits by departments in the store; (3) the middlemen and; (4) total profits in grocery retailing and their relationship to inflation.

BEEF PRICE SPREADS

I understand that the committee is interested in information regarding beef price spreads, particularly in the light of data reported by the U.S. Department of Agriculture, and testimony by the USDA before this committee, to the effect that

> Meat price spreads exploded late in the third quarter of 1973. They rose to record high levels in the late winter and early spring of 1974, while market prices for cattle and hogs dropped sharply and losses mounted for livestock feeders (J. Dawson Ahalt, statement of Oct. 3, 1974).

It is important at the outset to have clearly in mind what beef price spreads are and what they are not. Such price spreads are statistically calculated estimates of price-cost relationships at various points in time. So-called carcass-to-retail spreads do not portray profit rates actually experienced in retailers' handling of beef and other meats.

Not only are beef price spreads as presently calculated unrelated to actual profits, either gross or net, but they are of dubious value even as a measurement of the cost-price relationships which they purport to reflect. For example, it has been repeatedly pointed out to the USDA that its spreads do not reflect purchases or sales of non-Choice beef; they do not fully reflect sales of ground beef, or purchases of boneless beef for ground beef; they completely omit any consideration of the enormous purchases by retailers of primals, subprimals, and fabricated cuts; they take no account of the fact that retail prices reflect and therefore should be related to purchases made in the preceding or prior weeks, and they overstate retail prices because they take inaccurate and inadequate account of retailers' special price reductions—which tend to increase in number and depth when carcass costs decline. We have worked long and hard to encourage the USDA to revise its procedures but as yet the methods used by the USDA have remained largely unchanged.

But, even if the USDA were to modify its procedures along the lines suggested to it, the spread data would still tell us nothing about actual gross or net profit rates. To find Safeway's actual gross profit rates you must go to its accounting data on a departmental basis.

Nevertheless, because of the committee's interest in beef price spreads I have attempted to develop spread figures from Safeway's records. Safeway figures are also subject to defect, but do permit comparison with the USDA figures. Before making a comparison, however, I would like to explain how we went about calculating the Safeway numbers, what they represent as well as what they do not represent, and some shortcomings in any such statistical data as contrasted with the actual accounting results which I will present in the next sections.

To start with, and as background, we are buyers of USDA Choice grade beef, supplemented by purchases of boneless cow and other lean beef for grinding. Mostly we purchase Choice beef in carcass form. We purchase from packers; we do not own, feed, or slaughter any cattle ourselves. And over 99½ percent of our purchases are of domestic product.

The underlying data for the Safeway beef price spreads we are presenting are derived from cutting tests. Here we cut carcasses into about only 25 of the approximately 100 alternative retail cuts which are actually derivable from a carcass. Examples of such alternatives are: Round steaks or roasts, bone-in or boneless rib steaks or rib roasts, blade or arm or boneless chuck eye roasts, boneless shoulder pot roasts, short ribs, stewing beef, trim for ground beef, and on and on.

A cutting test determines: (1) the total weight of each of the approximately 25 types of retail cuts used in the test, (2) the overall salvage in the form of fat and bones and inedible trim, and (3) the cutting loss.

These weights and the retail price for each type of cut used in the test are entered on what is called a yield chart. On that chart the retail price for each type of cut is multiplied by the cutting test weight. The accumulation of all of the retail values derived in this calculation is a hypothetical retail value for the carcass. From that value is deducted the net trimmed cost of the carcass, and the residual is a statistically calculated gross initial carcass-to-retail price spread.

There are many shortcomings in calculating a retail pricing spread by a cutting test and a yield chart of which I will explain just a few examples. Many of the other shortcomings are enumerated in the appendix to this statement. Some of the principal problems are that the calculation assumes: (1) that the average of all the carcasses we handle will cut out the same as the carcasses used in the cutting test, which they don't, (2) that the average animal has the same conformation as the test animals, which they don't, (3) that the average percentage ratios of fat, bone and muscle are the same for the lots of carcasses in our day-to-day purchases, which they are not, (4) that each of thousands of meatcutters, on the average, will cut and trim exactly as the meatcutters who conducted the tests, which they will not, and (5) that the only cuts sold will be the few sold in exactly the same form and in the same proportions as in the test and that the full retail prices used in the yield chart, which they do not. Additionally, it ignores or inadequately reflects the erosion of the hypothetical retail value due to price specials, distress selling, pilferage and the like.

There are, moreover, additional problems which arise in attempting to compare spreads prepared by different analysts. Even if they were to employ as they do not—the same structure of retail prices of beef, the same values for salvage, the same carcass costs, and the same animals for cutting test purposes, the analysts will use somewhat different statistical estimating procedures, and hence will come up with different yield chart results—different calculations of retail values for the carcass—and therefore will arrive at different carcass-to-retail price spreads. It is valid only with respect to trends—the relative changes through time—and not as to the level or amount of the spread.

So much for the shortcomings of calculating a retail beef price spread on a yield chart basis. In that connection, I believe the USDA or any other calculation of spreads are subject to the same or similar inherent weaknesses, because to the best of my knowledge any attempt to estimate a retail realization on beef—a joint cost product—must start with a statistical yield chart calculation.

We have tabulated in comparative form the monthly average carcass costs and the retail beef spreads as reported by USDA, and we have calculated them from the yield charts for major Safeway operating areas, from January 1973 to date.

[The chart referred to follows:]

AVERAGES OF CARCASS COSTS &
ESTIMATED CARCASS-TO-RETAIL BEEF PRICE SPREADS
USDA & SAFEWAY, MONTHLY, 1973-74

YEAR & MONTH	CARCASS COSTS Per Pound of CARCASS USDA (1)	SAFEWAY (2)	CARCASS-TO-RETAIL PRICE SPREADS Per Pound of CARCASS USDA (3)	SAFEWAY (4)		Per Pound of RETAIL CUTS USDA (5)		SAFEWAY (6)		Percentage of "RETAIL PRICE" USDA (7)	SAFEWAY (8)
1973											
Jan	64.0¢	64.6¢	22.5¢	17.0¢		31.8¢		26.2¢		26.0%	21.0%
Feb	67.9	67.4	24.5	18.6		34.6		28.7		26.6	21.6
Mar	70.3	70.0	25.7	19.2		36.2		29.5		26.8	21.5
Apr	70.7	70.1	25.7	18.0	18.0	36.3	34.8	27.8	27.7	26.7	20.4
May	70.2	69.9	26.2	18.1		37.0		27.9		27.2	20.6
Jun	71.9	71.5	24.2	17.6		34.1		27.1		25.2	19.7
Jul	72.7	72.2	24.0	17.5		33.8		27.0		24.8	19.5
Aug	79.3 E	N.A.	23.0 E	N.A.		32.4 E		N.A.		22.5 E	N.A.
Sep	72.2	74.4	30.6	19.3		43.1		29.7		29.7	20.6
Oct	65.7 r	65.2	30.7 r	21.0	19.4	43.3	43.1	32.4	29.9	31.8 r	24.4
Nov	63.9	64.2	31.8	20.3		44.8		31.3		33.2	24.0
Dec	66.2	65.4	29.1	17.0		41.0		26.2		30.5	20.7
1974											
Jan	75.7¢	75.6¢	25.7¢	15.8¢	17.3	36.3¢	41.5	24.3¢	26.6	25.4%	17.2%
Feb	76.7	77.9	29.6	17.6		41.8		27.1		27.9	18.5
Mar	68.0	70.0	32.8	18.5		46.3		28.5		32.6	20.9
Apr	67.4	67.3	29.4	17.0		41.4		26.2		30.4	20.2
May	67.7	67.8	28.0	14.8		39.5		22.8		29.3	17.9
Jun	63.9	64.5	29.8	15.1		42.1		23.3		31.8	19.0
Jul	73.5	71.6	24.3	14.3		34.3		22.0		24.9	16.6
Aug	75.8	77.0	25.9	17.1		36.5		26.4		25.5	18.2
Sep	68.2	70.2	32.2	18.3		45.4		28.2		32.1	20.7
Oct		65.9		17.4				26.9			20.9

Notes:

USDA figures are based on those most recently published by USDA. That agency's yield chart assumes that 70.9% of the carcass weight may be used for consumer cuts saleable at retail (the remainder being salvage fat, bone, inedible trim, and cutting loss). Conversely stated, it would take 1.41 pounds of carcass to produce 1 pound of retail cuts.

SAFEWAY figures are based on the application of local yield charts to our retail prices and carcass costs in our major U.S. operating areas, where our divisions' cutting tests indicate an average 64.85% yield of consumer cuts from the carcasses purchased. Conversely, this means that it would take 1.542 pounds of carcass to produce 1 pound of retail cuts.

In commenting on their figures, the USDA stated that "meat spreads exploded late in the third quarter of 1973. They rose to record high levels in late winter and early spring of 1974." The USDA's beef price spread data support this statement; however, the Safeway data do not. Looking at column 5 of the tabulation, we note that per pound of retail cuts, the USDA price spread for beef rose from a 34.8 cent average for the first 7 months of 1973 to 43.1 cents for the last 4 months, and then settled back slightly to a 41.5 cent average for the first quarter of 1974. However, the data for Safeway show:

(1) In column (6), that the spread per pound of retail cuts increased modestly from a 27.7 cent average for the first 7 months of 1973 to 29.9 cents for the last 4 months of 1973, declining to a 26.6 average for the first quarter of 1974.

(2) In column (4), that the spread per pound of carcass increased from an 18-cent average for the first 7 months of 1973 to a 19.4-cent average for the last 4 months of 1973, declining to a 17.3-cent average for the first quarter of 1974.

Additionally, as shown at the bottom of column (5), the latest available USDA figures show (according to USDA) that from August to September this year when carcass costs fell dramatically, the beef price spread broadened sharply (nearly 10 cents per retail pound). However, Safeway calculations (at bottom of column (6)) would reflect only a modest (less than 2 cent per retail pound) widening of the spread from August to September, followed by a narrowing in October despite further declines in our carcass costs.

As I stated previously, the data from USDA and for Safeway are at best statistical estimates, and are subject to the reservations and shortcomings noted above, among others. However, the trend in the Safeway data is supported or corroborated by accounting data showing Safeway's U.S. gross profit results by departments, and that is the subject to which I would now like to turn.

GROSS PROFIT RATES BY DEPARTMENTS

Testimony given before this subcommittee on last October 3 by a U.S. Department of Agriculture economist referred to profit rates for departments of retail food stores. Excerpts from USDA's statement read:

"Data on the profit rates for departments of retail food stores are not available." (While that is true so far as net profit rates are concerned, Safeway does have departmental gross profit rates, and I intend to give them to the subcommittee today.)

Going on, the USDA further states, "However, the changes in meat price spreads and general marketing costs suggest that the profits for retailing meat increased sharply during the first half of 1974." (The actual experience at Safeway is just to the contrary.)

"Based on this circumstantial evidence, it appears that the recent increase in meat spreads was caused partially by food retailers changing their pricing policies to increase profits in their meat department." (Again, not so at Safeway.)

Because USDA lacks data on departments, it is clear that its admitted conjecture as to what happened to profit rates in the retail store departments is based solely on its conclusion that meat price spreads—as calculated by USDA—increased sharply. But the actual situation for Safeway's meat departments was just the opposite. Our gross profit rates for our meat departments, based on our actual accounting records, not conjecture, did not increase sharply during the first half of 1974. They actually decreased slightly.

This is shown by the following table, drawn directly from our accounting records:

42-780—74——10

SAFEWAY STORES, INCORPORATED - U. S.
GROSS PROFIT* RATES BY DEPARTMENTS

Period	Total Store	Meat Department	All Other Departments
1970	20.6%	19.8%	20.9%
1972	20.4	19.5	20.7
1972	20.1	18.9	20.5
1973	19.7	17.9	20.2
Partial Periods			
24 Weeks Ended 6/16/73	20.1	19.0	20.5
24 Weeks Ended 6/15/74	20.0	17.8	20.7
36 Weeks Ended 9/8/73	19.7	18.3	20.2
36 Weeks Ended 9/7/74	20.1	18.2	20.7

* Gross Profits represent the difference between retail sales and the cost of goods laid in at the store. The percentage gross profit rates shown above reflect the cents of gross profits per each dollar of sales.

You will note on the table, "Gross Profit Rates by Departments," that in our meat departments we experienced a decline during the first half of 1974, compared with a year earlier or the entire year 1973. On the other hand, there was a fractional expansion of this gross profit rate on sales in the store's other departments.

Now, where does this leave us? It seems to me that the inference that will be drawn from USDA's conjecture is that retailers had taken an unconscionable profit on meat while offsetting this by lower profits in other departments. Since the documented facts at Safeway are 180 degrees to the contrary, it would seem to follow that our course of action was right, not wrong.

The Middlemen—or What Becomes of the So-Called Retailer's Spread:

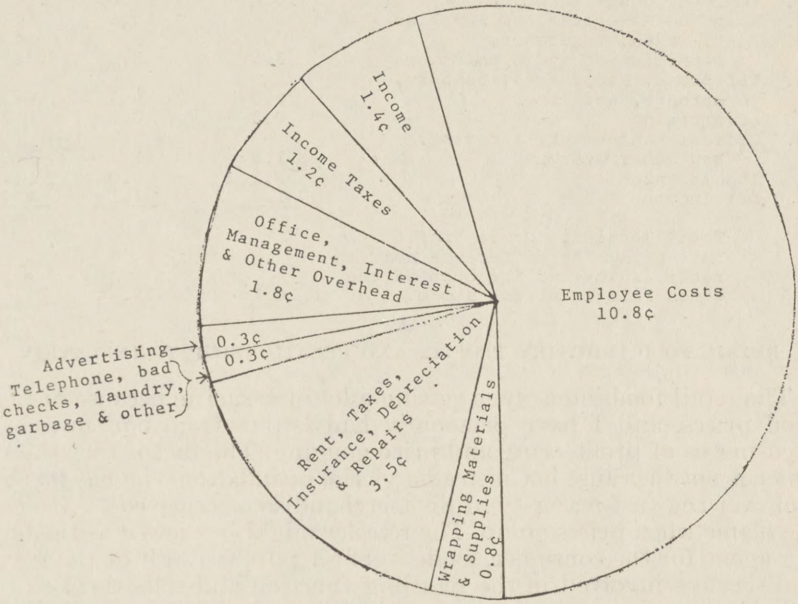
The retailer starts out with a dollar of sales and from this he must deduct the cost of the merchandise sold, which in the case of Safeway was 79.9 cents, for Safeway's overall U.S. operations for the 36 weeks ended September 7, 1974.

The balance is what we call gross profit—the difference between retail sales and the cost of goods laid in at the store. This gross profit is not all ours, not by a long shot! Many other middlemen are involved. For example, of Safeway's gross profit of 20.1 cents shown on the schedule "Detailed Breakdown of Retailing Gross Profit" we had to pay our store employees 10.8 cents; wrapping materials and bags cost us 0.8 cents; we paid our landlords, the local tax collectors, our insurance brokers, the repairmen, and we set aside for depreciation a total of 3.5 cents; the telephone company, the laundryman, the garbageman and bad check artists got 0.3 cents; the advertising media got 0.3 cents; our office people, management, bankers—interest—and other overhead cost came to 1.8 cents and finally we paid the IRS 1.2 cents. After paying all the other middlemen the company was left 1.4 cents. Thus, while our accounting shows a gross profit of 20.1 cents, along the way we paid out to others 18.7 cents leaving us 1.4 cents. The two following exhibits detail these figures.

SAFEWAY STORES, INCORPORATED - U. S.
DETAIL OF RETAILING GROSS PROFIT
PER DOLLAR OF SALES

36 Weeks Ended September 7, 1974

FOR TOTAL STORE



10.8¢	Employee Costs at Store
0.8	Wrapping Materials and Supplies
3.5	Rent, Taxes, Insurance, Depreciation and Repairs
0.3	Telephone, Bad Checks, Laundry, Garbage and Other
0.3	Advertising
1.8	Office, Management, Interest and Other Overhead
1.2	Income Taxes
1.4	Net Income
TOTAL: 20.1¢	Gross Profit; the difference between retail sales and the cost of the goods laid in at the store.

11/19/74

SAFEWAY STORES, INCORPORATED - U. S.
DETAILED BREAKDOWN OF RETAILING GROSS
PROFIT PER DOLLAR OF SALES
FOR TOTAL STORE

		36 Weeks Ended 9/7/74	Year 1973	Year 1972
A.	Employee Costs at Store	10.8¢	11.0¢	10.9¢
B.	Wrapping Materials and Supplies	0.8	0.8	0.8
C.	Rent, Taxes, Insurance, Depreciation and Repairs	3.5	3.6	3.7
D.	Telephone, Bad Checks, Laundry, Garbage, and Other	0.3	0.3	0.3
E.	Advertising	0.3	0.3	0.2
F.	Office, Management, Interest, and Other Overhead	1.8	1.7	1.6
G.	Income Taxes	1.2	0.9	1.2
H.	Net Income	1.4	1.1	1.4
	Total Retailing Gross Profit This being the difference between retail sales and the cost of the goods laid in at the store	20.1¢	19.7¢	20.1¢

RETAIL FOOD INDUSTRY PROFITS AND RELATIONSHIP TO INFLATION

The retail food industry is getting a lot of criticism because of high food prices, and I have personally had letters from our customers accusing us of profiteering and price gouging. The fact is that the retailer is not the cause but instead a victim of inflation—he has no control over the vast majority of his merchandise or other costs, yet gets the blame when prices go up. The retailer might be viewed as the buying agent for the consumer, as he in effect purchases all of the goods and services involved in the retailing function and sells them to the consumer, hoping that the aggregate of his sales will cover all of the costs incurred and provide what has historically been a paper-thin margin. I am, of course, referring to the net profits as a percentage of retail sales. Historically, these profit margins for the industry have run in the range of 1.1 percent to 1.3 percent. In 1973 they amounted to $\frac{7}{10}$ths of 1 percent. Currently, for the first half of 1974, the margins have averaged at $\frac{9}{10}$ths of 1 percent. The reasons Safeway has done better than the industry average are its above-average volume increases and, we believe, its greater efficiency improvements.

Grocery store sales in 1973 amounted to $98.39 billion according to U.S. Department of Commerce. At the 1973 rate of $\frac{7}{10}$ of 1 percent, U.S. grocers' net profits in total would have amounted to $689 million. Based on the U.S. population of 210.4 million people in mid-1973, that profit would have been equal to just $3.27 per capita per year or less than one penny per person per day. So if all the grocery stores nationwide had given back their total net profits to all of their customers, a family of four would have received about 28 cents per week, not enough to buy a pack of cigarettes. The point of this exercise is to demonstrate that the grocery retailer has not been and is not contributing to inflation, and if prices were reduced to the point where there was no profit at all to the retailer, there would be no significant effect on the average family's food budget.

You might wonder about Safeway's increase in profits in 1974 over 1973. Actually, 1974 represents a return to a normal profit performance from a severely depressed year. The following table shows a net profit ratio for Safeway's U.S. operations of 1.4 percent of sales for our first three quarters, 36 weeks of this year.

[The table referred to follows:]

SAFEWAY STORES, INCORPORATED (U. S. ONLY)
SALES, NET INCOME AND NET INCOME
AS A PERCENT OF SALES

Year	Sales (000 omitted)	Net Income	Net Income as a Percent of Sales
1964	$2,442,516	$43,067,763	1.8%
1965	2,538,808	40,267,409	1.6
1966	2,897,600	50,275,961	1.7
1967	2,849,384	39,394,322	1.4
1968	3,124,731	44,010,899	1.4
1969	3,500,205	39,841,649	1.1
1970	4,131,735	53,887,251	1.3
1971	4,522,088	63,514,918	1.4
1972	5,049,252	69,282,351	1.4
1973	5,553,538	62,062,553	1.1
10-year average			1.4
First 36 weeks 1974	4,476,946	63,577,976	1.4

11/19/74

This is identical to the average rate for the past 10 years. I recognize that some people will point out that our return on stockholders' equity is considerably higher than our profit ratio on sales. To this I would first answer that our profit rate on sales best measures our share of our customers' dollar expenditures in our stores—incidentally for a good many household items in addition to food. In other words, our one and only profit is still just that 1.4 cents out of each 100 cents of sales—and if we were to give back that 1.4 cents to our customers, our return on investment would be zero. Second, I would point out that total capitalization would be a better measurement of investment than just our stockholders' equity as stated on the balance sheet, particularly in a company as highly leveraged as Safeway. For example, while our stockholder's equity totals $700 million, we have more than $1.5 billion in lease liabilities which do not appear on the balance sheet. Yet these lease liabilities represent a long-term debt obligation to investors who have financed facilities in which we operate. Any meaningful analysis of returns on capital employed must take into account common equity, preferred stock, debt, and off-balance-sheet financing.

In conclusion, Mr. Chairman, I would like to be able to tell you that I am going back home and will immediately make a meaningful reduction in all food prices. Unfortunately this is not feasible. We simply do not have the ability to absorb any more of the cost increases we are experiencing. What we can do is pledge ourselves to continue to run an efficient business with no frills, to concentrate upon increasing productivity, and to continue to offer our customers the best and most attractive values possible.

Thank you for this opportunity.

[The appendix to Mr. Mitchell's statement follows:]

APPENDIX

Some Notes on Statistical Estimation of Price "Spreads" by means of Beef Yield Charts

A. Safeway Data for this Submission

In the text of the Statement and in the footnote of the Table headed "AVERAGES OF CARCASS COSTS & ESTIMATED CARCASS-TO-RETAIL BEEF PRICE SPREAD," reference is made to the Safeway figures having been calculated from the local yield charts for Safeway's major operating areas.

As among areas and within an area from time to time, such local yield charts contain many of the variations cited in the following Section (B. "Some Add'l Shortcomings...") - as to the particular retail cuts selected in the cutting tests, the yield chart treatment and valuation of salvage, the extent to which temporarily reduced or "special" prices (but not accelerated movement at those prices) are reflected, etc.

Because of the qualifications and limited significance of "spreads," Safeway does not regularly collect or combine such yield chart data. However, to comply with the Committee's request, we used the following approach:

a. We obtained from our major operating areas the percentage gross initial pricing margins shown on their regularly prepared yield charts for carcass beef, 1973 through October 1974.

b. We computed a simple average of those percentages for each week.

c. We then applied those averages to simple weekly averages of carcass costs for the operating areas covered (the latter being a record we do collect weekly and maintain in Oakland). This gave us a statistical approximation, weekly, of a gross initial pricing margin or "spread" on a per pound of carcass basis. (Example: If yield chart percentage margins averaged 20% of "retail value," the carcass cost represented 80%. If carcass costs averaged 64¢ per pound, the "retail value" equivalent was calculated as 64¢ ÷ 80% or 80¢ per pound of carcass. The differential or "spread" would then be 80¢ less 64¢ or 16¢ per pound of carcass.)

d. The weekly results were then averaged for the four or occasionally five weeks included most closely to represent the months indicated on the tabulation submitted .... carcass cost averages in Col. (2), "spreads" per pound of carcass in Col. (4), and percentage "spreads" in Col. (8).

e. "Spreads" per pound of retail cuts for Col. (6) were then calculated by multiplying the "spreads" per pound of carcass in Col. (4) by the factor 1.542 in the footnote to the tabulation. As stated there, this is the reciprocal of the 64.85% yield of consumer cuts from starting carcass weights which was the simple average of carcass yield charts obtained for the latest week available from each of the operating areas covered in the analysis.

B. Some Additional Shortcomings of Yield Chart Calculations of "Spreads"

1. A yield chart is based on a cutting test, in which the retailer records the average proportions of the test carcass weights represented by steaks, roasts, stew, trim for grinding, and the salvage fat, bone, inedible trim and shrinkage losses incurred in cutting.

   Of necessity, the retail cuts selected for the test represent only a sampling of the wide variety of alternative cuts which might be prepared. Hence, the proportion of retail cuts varies substantially from one test to another, depending upon the cuts specified (e.g., boneless vs. bone-in), and even the combination of a number of tests cannot accurately reflect the ever-changing mix of cuts actually prepared in day-to-day retailing. Cutting methods and cuts prepared vary widely from market to market (even store to store), and from time to time (seasonally, or for other reasons).

   Also of necessity, the test carcasses constitute only a very limited sampling of the number of carcasses handled by any retailer. And, the cut-outs from even a series of samplings cannot be depended upon accurately to reflect the changes that occur in cutability of carcasses due to differences in weights, sex, breeds, degrees and types of feeding, and other factors that bear upon conformation and lean-fat-bone ratios.

2. A yield chart involves the extending of cut-out proportions of the carcass by a set of the retail (usually only "regular") and salvage prices applicable to the selected cuts, in order to arrive at a "composite retail price," or "aggregate retail value" for comparison with the cost(s) of carcasses purchased at wholesale.

But, multi-market retailers may in fact have a number of prices applicable to cuts derived from carcass purchases, as cut-by-cut retail prices can vary not only from one market area to another, but also within broad market areas. Additionally, each retailer must tailor his pricing structure among cuts to reflect local competitive practices and buying preferences (which shift seasonally and otherwise), as well as to changes in supplies, in order to balance as best he can the movement of all of the portions of the carcasses (or extra fores, hinds, or primals) he handles. His calculated "aggregate retail value," moreover, is eroded in practice by specialing or "distress-pricing" or spoilage of certain cuts, and by refunds and pilferage. Erosion from the hypothetical "retail value" calculated on a "normally proportioned" carcass is compounded by the fact that cuts that are specialed, advertised, or otherwise promoted typically move in greater relative volume than their cut-out proportions from a carcass, frequently requiring supplemental primal purchases not reflected in a carcass yield chart. Moreover, the retailer's actual costs of beef purchased are elevated if he supplements his untrimmed carcass purchases with purchases of trimmed carcasses, primals, or box-beef. Erosion of actual revenues (from calculated "retail values" on a carcass basis), coupled with elevation of actual costs, inevitably means that the margin or gross profits realized and realizable in handling beef are less than typically calculated carcass-to-retail initial gross pricing margins or "spreads."

3. Even assuming a set of circumstances that cannot exist, namely, representative sampling (of retail cuts and or carcasses), purchasing of untrimmed carcasses only (no trimmed carcasses or primals or boxed-beef), complete and balanced movement of cuts and salvage derived from those carcasses (no pilferage, spoilage, or other shrinkage), at retail prices originally set (not eroded by specialing or distress-selling), still yield chart calculations would involve certain inherent shortcomings that render them inadequate as measurements of gross profits or margins in handling beef.

For carcass yield chart purposes, it is a practical impossibility, for example, accurately to value the trim derived in carcass cutting - such trim being of varying fat contents from various portions of the carcass - which is to be utilized as one ingredient (to a greater or lesser extent supplemented by separately purchased boneless lean beef), in the preparation of the various grinds (of different fat contents) of ground beef offered at retail. To account for 100% of a carcass, all such trim must be reflected in cut-out test weights. But, that trim is for the most part fatter than the ground beef products prepared. Hence, pricing out the carcass trim at retail prices for the ground beef product(s), as is quite typically done in yield chart calculations, obviously results in an overstatement of the "retail value" of the carcass. There are methods to compensate - e.g., to value the carcass trim at something less than the retail price of the ground product, to treat it as a salvage item (possibly as a reduction of the carcass cost, rather than as an addition to the "retail value"), or even to adjust the carcass cost for the supplementary purchases of lean beef. Any of these options would of necessity be arbitrary; and each would have its own, a priori indeterminant effect upon yield chart "spread" calculations, varying through time as lean boneless beef - Choice carcass beef cost relationships change. This ground beef problem in carcass yield chart spread calculations should be recognized, but not in a simplistic manner any more than in one so complex that yield chart calculations could be understood only by the calculator.

4. The foregoing complexities and qualifications of so-called yield chart measurements of pricing margins or "spreads" in beef retailing should at the very minimum urge extreme caution in evaluations or comparisons of certainly the levels, and even in the trends, of such "spreads." These factors, among others, conclusively reveal that yield chart "spreads" are <u>not</u> indicative of the <u>gross</u> profits actually realized by the retailer in handling beef, and do not even remotely reflect the retailers' <u>net</u> profits.

Valid measurements of retailers' gross profits on beef will simply not be ascertainable until cash registers might be equipped with separate "beef keys," or the Universal Product Code (UPC) is further developed for application to beef items actually sold .... and accounting procedures developed accurately to measure the merchandise cost of those beef sales.

<u>Net</u> profits in retailing beef, if and as calculations are attempted, will always be subject to the particular operating cost allocations employed.

Mr. VIGORITO. Thank you, Mr. Mitchell. We will proceed with the other statements and then we will call you back for questioning. We will definitely not finish by 12 o'clock. We will recess at 12 until 2 p.m.; I hope that we will finish not later than 4 p.m. I would rather finish today than have to come back at another date.

Mr. MITCHELL. Mr. Chairman, might I ask you a question. Would it be your advise that I change my airline reservation? I am out of Dulles at 5:45 back to California.

Mr. VIGORITO. Well, I think you will be able to make the 5:45 out of Dulles. We will try to accommodate you.

Mr. MITCHELL. Thank you very much.

Mr. VIGORITO. Our next witness is Mr. John Cairns, vice president of merchandising, and national sales director of the great Atlantic & Pacific Tea Co., New York City.

STATEMENT OF JOHN J. CAIRNS, JR., VICE PRESIDENT, MERCHANDISING, AND NATIONAL SALES DIRECTOR OF THE GREAT ATLANTIC & PACIFIC TEA CO., INC., NEW YORK, N.Y.; ACCOMPANIED BY DENIS McINERNEY, COUNSEL

Mr. CAIRNS. Mr. Chairman, I am John J. Cairns, vice president of the merchandising of A. & P. food stores. I have with me Mr. Denis McInerney, of Cahill, Gordon; our counsel.

The concern of this committee and others over high retail meat prices, and the spread between what the farmer receives for his cattle and what the consumer pays for meat in the stores, is also a concern to A. & P. We welcome this opportunity to inform this committee of our experience in meat sales in 1974 as compared with other years.

At the outset, I will try to describe briefly A. & P.'s organization, its meat operations, and its general marketing philosophy. Then—since this committee is primarily concerned with the present high cost of meat to the consumer and with charges of possible profiteering somewhere along the distributive process—I would like to review the economic factors which are relevant to these issues and which show that neither the food retailer in general nor A. & P. in particular can fairly be made out to be the "villian of the piece". The economic factors which I shall discuss will include profit rates, expenses (including general items and those relating solely to meat) and margins.

GENERAL DESCRIPTION OF A. & P.

A. & P. has been in the retail food business since 1859. Today, A. & P. operates more than 3,500 stores in 33 States, the District of Columbia, and Canada, and it has approximately 113,000 employees. Our stores offer more than 10,000 food and other items, and we have approximately 18 million customer transactions each week.

A. & P. has 31 operating divisions, 30 in the United States and 1 in Canada. The number of stores within a division is determined largely by population and the company's ability to develop business in a given location.

It is also part of A. & P.'s tradition that, perhaps more than any other leading chain, we have operated many stores in inner-city locations even though these stores are typically smaller and therefore more difficult to operate than our stores in suburban areas.

MEAT OPERATIONS AND MARKETING PHILOSOPHY

Our meat purchasing is handled primarily by A. & P.'s national meat purchasing department in Chicago, which is responsible for buying most of the meat requirements of the various divisions. Each division, however, also purchases locally to fill in its needs and to obtain specialty items and to take advantage of local market conditions. Despite the major role of A. & P.'s national meat purchasing department in procurement, as in the case of all other items, the retail price of meat in A. & P.'s stores is set at the division level. Each division (based on considerations of costs, product availability and competition) independently prices, selects its own weekly meat features, and determines the method of advertising. All of these vary from division to division.

A. & P.'s marketing philosophy is and has been to provide our customers with the highest quality food at the lowest possible price. Our company's policies also include (i) an unconditional money-back guarantee on all products sold in A. & P. stores, whether or not produced by us; (ii) unit pricing, which enables the customer to know the price of an item by weight or measure (currently available in some 3,000 A. & P. stores); (iii) open dating, which lists the last date a product can be sold as fresh in our stores (currently used on over a thousand perishable items); and (iv) a rain check policy, which provides that if an advertised item is not available the item will thereafter be made available to the customer at the advertised price.

PROFITS, EXPENSES, MARGINS, AND OTHER ECONOMIC FACTORS

A. & P.'s commitment to sell quality food in large volume at reasonable prices continues, and will continue, in spite of the fact that our expenses are increasing at an alarming rate. Of necessity, these expenses must be passed on to our customers if we are to generate at least a minimal profit and stay in business. The fact of the matter is, however, that in recent years A. & P.'s total profits which (as typical of the retail food industry) have always been modest, are now further reduced and depressed even below industry standards. Moreover, as I believe we will demonstrate to you today, our meat sales are even less profitable than the total profit picture.

We believe that, over the years, A. & P.'s percentage of meat sales to total sales has been somewhat higher than the industry average. In our view, this has been the result of consumer response both to our super-right quality standards and to our vigorous promotion of meat specials at reasonable prices on a regular basis. A. & P. believes and aggressively pursues the notion that quality meat—properly packaged, effectively promoted and reasonably priced—has strong customer appeal. However, as will be seen, A. & P.'s meat departments are by no means supporting the rest of our operation.

PROFITS

Any contention that A. & P. is reaping excessive (or even high) profits on its meat sales is simply not true. We are aware that in the August 1974 report of a special task force to Earl L. Butz, Secretary of Agriculture, "Farm-Retail Price Spreads for Red Meat," it is stated that based on circumstantial evidence, it appeared that the increase in meat prices in the first half of 1974 was caused partially by certain food retailers "changing their pricing policies to increase profits in their meat departments." Speaking for A. & P., I can state categorically that this is simply not the case.

[The above referred to report is retained in the subcommittee files.]

Mr. Cairns. On the contrary, I have with me figures which show that, while A. & P.'s gross margin on meat sales has remained fairly constant over the years, increases in our expenses have caused A. & P. to realize less and less on its meat sales.

Moreover, even though the special task force report to Secretary Butz attributed a recent change in profit policy to some retailers, it also noted that profits of the retail food chains as a percentage of sales and as a percentage of stockholders' equity have been historically low. In this regard, the report states:

Throughout much of the period since 1960, profits as a percentage of stockholder equity ranged between 10 and 13 percent for 15 major retail food chains as a group (appendix table 2[1]).

As a percentage of sales, profits ranged between 1.1 and 1.3 through most of the period. Profit rates by both measures fell substantially in 1972 and 1973 and they were well below profit rates for other industry groups throughout the period 1960–73. Only recently have retailers' profits risen to their levels of the 1960's.

Meat packer profits were more unstable but ran somewhat higher relative to sales than those of food retailers.

Overall, profits in meat packing and food retailing (through June, 1974) have not been excessive relative to all manufacturing industries in the country. (pp. 5, 6; emphasis in original.)

The report goes on to state:

In the first three quarters of 1973 profits of 15 retail food chains ranged between 0.4 and 0.7 percent of sales—well below their historical levels of 1.1 and 1.3 percent (Appendix Table 2). But in the fourth quarter of 1973 retailers' profit rates rose to 1.0 percent of sales. Preliminary data for 10 retail chains indicate that profit rates averaged 0.9 percent of sales in the first two quarters of 1974.

Meatpacker profits also rose in the fourth quarter of 1973 to 1.5 percent from about 1.0 percent of sales in the first three quarters of that year. Preliminary data suggest packers' profits ranged between 1.1 and 1.4 percent in the first two quarters of 1973 (Table 2).

Although packers and retailers improved their profit positions in late 1973 and early 1974 relative to their earlier positions in 1973, those higher rates were *not out of line* with longer term rates in the industry. (pp. 7, 8; emphasis in original.)

The above analysis for the food industry is reflected in the results of A. & P.'s operations. Historically, A. & P.'s net profit has been 1 percent of sales—or a penny on each sales dollar. That rate of return prevailed for the 10-year period 1957 through 1967, but even this extremely modest figure has not been obtained since then. That A. & P. is well below even food industry averages is shown in the following chart:

NET PROFIT AFTER TAXES AS A PERCENTAGE OF SALES[1]

	1968	1969	1970	1971	1972	1973	1974 (1st 6 mo.)
Manufacturing industries	5.1	4.8	4.0	4.1	4.3	4.7	5.6
15 largest retail food chains	1.1	1.1	1.1	.9	.5	.7	.9
A. & P.	.8	.9	.9	.3	(.8)	.2	.4

[1] The figures for manufacturing industries and the 15 largest retail food chains are taken from table 2 of the special task force report to Secretary Butz (see appendix A). A. & P.'s figures are taken from its own accounting records. The 15 largest food chains are identified in table 3 of the report to Secretary Butz as American, Alllied, Colonial, First National, Food Fair, Grand Union, A. & P., Jewel, Kroger, Lucky, National Tea, Safeway, Stop & Shop, Winn Dixie, Supermarkets General. This table is annexed in appendix A.

Also, for every year shown on the charts A. & P.'s figures were below those of the 15th largest retail food chains.

Similarly, if we calculate retail profitability on the basis of stockholder equity for basically the same period, that is, 1968–73, as was done in the report of the special task force—see table 2 in appendix

[1] This table as numbered in the report to Secretary Butz is annexed hereto in Appendix A.

A—A. & P.'s return compared with other large retail food chains shows that we are dealing with a very competitive, low-profit industry and that A. & P.'s operations are even less profitable. In this regard, the relevant figures are as follows:

NET PROFIT AFTER TAXES AS A PERCENTAGE OF SHAREHOLDER'S INVESTMENT

	1968	1969	1970	1971	1972	1973
Manufacturing industries	12.2	11.5	9.3	9.7	10.6	12.6
15 largest retail food chains	10.3	10.4	10.6	10.1	5.1	7.6
A. & P.	7.1	8.2	7.5	2.2	(8.6)	2.0

These figures clearly demonstrate that no matter how you calculate A. & P. net profits—whether you do it on a percentage of sales or stockholder's equity—it is one of the lowest in the retail food industry, and in 1972 there was no profit at all.

These profit figures also establish that food retailers generally are hardly the monolithic predators reaping huge profits at the public's expense that some—through inadvertence or otherwise—have sought to make them out to be. As I will now show, this is particularly so in regard to the retail price of meat.

EXPENSES

From the standpoint of A. & P.—and other food retailers, I assume—the basic factor causing increased retail prices for meat and other products is the increased cost to them of furnishing the product to the consumer. In this connection, insofar as meat distribution costs are concerned, I again refer you to the special task force report and to their conclusion as to the major causes of the recent increase in the spread between what the cattlemen receive and what the consumer pays for meat in the store. The report states:

> Several factors contributed to the trend toward wider margins for red meat. Most important have been the sharp increases in costs of labor and other services and supplies required by marketing firms (Appendix Table 1). Hourly earnings of workers in meat packing and processing are three-fourths higher than earnings in 1963. In the food retailing sector hourly wage earnings are about 80 percent higher than in 1963.
>
> Despite labor saving technology and increased labor productivity total labor costs have risen substantially and account for about half of the farm-retail spread for beef and pork.
>
> Prices of containers, packaging, energy, and rail freight rates have undergone similar dramatic increases, particularly since 1969.
>
> In a very real sense, marketing margins for meat are the result of the strong inflationary pressures in the American economy since 1969. (P. 3, emphasis in original.)

The finding of the special task force of increased costs has certainly been borne out by our own experience at A. & P. It should come as no surprise to anyone that A. & P.'s costs in 1974 have increased considerably over 1973. A few examples are these:

	Current year versus 1973 (percent)	Dollar increase on an annual basis
Rent on stores	+6	$5,923,000
Store maintenance	+11	3,489,000
Liability insurance	+14	1,376,000
Labor and wage rates	+10	59,644,000
Fringe benefits	+15	15,340,000
Packaging:		
Meat trays	+45-70	2,736,000
Meat wrappings	+65	2,309,000
Paper bags	+25	5,202,000
Utilites (heat and electricity)	+39	22,459,000
Interest	+20	800,000

MARGINS

In spite of higher meat costs and substantial increases in the overall cost of doing business in this inflationary economy, the ratio between A. & P.'s gross margin—that is, sales less costs of goods sold divided by total sales—has remained relatively constant. To illustrate this point and to indicate how A. & P.'s average cost per pound for meat and its markup compare over the last 5 years, I have had a chart prepared.

I don't believe I need to read all of the figures but I would just like to point out that we have shown the retail markup per pound in the second column and in the period for the fourth quarter of 1973, and the first two quarters of 1974, this retail markup per pound has remained relatively constant. Actually it went down a penny from the fourth quarter of last year to the second quarter of this year. The retail price per pound declined from the fourth quarter of last year to the first quarter of this year and again into the second quarter of this year.

Our average meat gross margin in the fourth column, staying with just the fourth quarter of 1973 and the first two quarters of this year, has gone up slightly as you will see. It went from 21.5 in the fourth quarter of 1973 to 21.9, or an increase of 39 hundredths.

In the last column we have shown the average total expense rate and again staying with that same time period, you will note that our expense rate climbed from 17.78 in the fourth quarter to 19.09 in the second quarter, or an increase of 1.11 percent, contrasted with the increase in the gross margin of only 39 hundredths.

[The chart referred to follows:]

Estimated Average Per Lb.*

	(1) Cost of Meat Delivered to the Store	(2) Retail Markup	(3) Retail Price	(4) Average Meat Gross Margin	(5) Average Total Expense Rate
Annual Average					
1968	$.49	$.12	$.61	20.06%	17.75%
1969	.53	.14	.67	20.53	17.84
1970	.55	.15	.70	21.76	18.53
1971	.59	.16	.75	21.30	19.45
1972	.66	.16	.82	19.95	18.96
1973					
1st Qtr.	.78	.20	.98	20.15	18.09
2nd Qtr.	.84	.21	1.05	19.95	18.07
3rd Qtr.	.88	.21	1.09	19.41	18.00
4th Qtr.	.84	.23	1.07	21.50	17.78
Annual Average					
1973	.83	.21	1.04	20.26	17.98
1974					
1st Qtr.	.82	.22	1.04	21.52	18.55
2nd Qtr.	.77	.22	.99	21.89	19.09

* The last two columns (average gross margin and expense rate) are derived from A&P's statistical records. The "retail price" (column 3) is A&P's estimate of average retail value of a pound of a product sold from A&P's stores. The average meat margin (column 4) was applied to the estimated retail price to obtain the retail markup (column 2). This was subtracted from the retail price to arrive at the estimated delivered cost per pound (column 1).

The last column above gives A. & P.'s total expense rate for all items sold. We do not have separate expense figures for the different departments in our stores, but we do know that the meat department is the most expensive to operate. Sample performance figures from two of our divisions indicate:

	Expenses as a percentage of sales		
	Meat department	All other departments	Total expense rate
In store labor	10.63	7.20	7.9
Supplies	1.25	.49	.66
Utilities	1.64	1.04	1.19
Depreciation and amortization	.78	.48	.56

The Meat Dept. figures represent the direct charges that could be made solely to the meat department while the All Other Depts. includes expenses of the other departments and those shared in common with the meat department. Examples of shared expenses which fall under the above descriptions are: certain labor costs, such as floor cleaning, cashiers, bookkeepers; supplies, such as bags; and utility costs, such as heating, lighting, etc. For these and many other expenses which are shared in common there is no practical method of allocation.*

The aforementioned figures demonstrate (i) that there have been only minor fluctuations in A. & P.'s meat gross margin over the years, and (ii) that the actual increases in retail prices have not been sufficient to offset increased costs of meat operations. In this regard, I note that the delivered cost per pound as shown in the chart represents the cost of the meat delivered to our stores; to this cost must be added the substantial in-store costs incurred to sell the meat, including labor, packaging, utilities, et cetera.

To further illustrate the point, I had prepared a chart which shows, on a monthly basis for the first nine months in 1974, A. & P.'s meat gross margin and our total expense rate. The comparison shows the following:

[In percent]

	Meat gross margin	Total expense rate
1974:		
January	22.01	18.22
February	20.75	17.71
March	21.52	18.53
April	21.62	18.33
May	21.66	18.68
June	22.76	19.00
July	22.05	18.80
August	20.88	19.38
September	21.77	19.09

It had gone down 24 hundredths, or approximately ¼ of 1 percent.

In January of this year our total expense rate was 18.22. In September it was 19.09, or it had gone up 87 hundredths of a percent. The net difference between the two is in excess of 1 percent.

This comparison shows that while our total, overall expense rate increased in the first 9 months of the year by 5 percent, our meat gross profit declined 1 percent. Since, as we have already seen, our meat operations generate a substantially greater expense rate than our total expense rate on the four items shown alone, it would appear that our gross margin on meat is less than our expense rate and that we are in fact losing money on meat sales.

CONCLUSION

We understand and are sympathetic to the problem of cattlemen and other food producers who have contributed to the enormous and vital task of feeding millions of people all over the world. We are concerned equally for consumers—especially those on a fixed or low income—and we are doing what we can to respond to their concerns about high food

*Those items include managers' salaries, store carriages, taxes, postage, telephone, rubbish removal, customer accidents, uncollectable checks, general maintenance, advertising, supervision and administration.

prices. At this same time, we are dismayed if these groups or others mistakenly believe that profiteering retailers are responsible for high food prices. This is just not the case at A. & P. In fact, A. & P.'s profits in recent years have been almost nonexistent and, in any event, are not high enough to keep pace with increased expenses and to produce the requisite capital necessary for continued expansion and improved productivity in line with our tradition of service to the consuming public.

Realizing that more efficient productivity is required if a quality product at a reasonable price is to be made available to the consumer, A. & P. has gone to larger stores, automated warehouses, automated order processing, improved inventory management control at the store level, electronic cash registers in our stores and, in the meat department, the purchase of boxed beef with its saving in shipping and labor costs and improved sanitary conditions. These changes, however, have not enabled us to reduce prices as anticipated because they have been more than offset by rising expenses.

It must be recognized that the problem of high food costs in a time of inflation is a complex and difficult one. A. & P. is anxious to cooperate in taking any reasonable steps to combat this problem. Accordingly, we look forward hopefully to the results of this committee's endeavors.

Thank you.

[Appendix A attachments referred to previously follow:]

Table 2. --Profit ratios (after Federal income taxes) of all manufacturing, manufacturers of food, textiles, apparel and 15 retail food chains, annual 1960-73, quarterly 1972-74 1/

Year and quarter	Food Manufacturers: Total 2/	Food Manufacturers: Dairy	Food Manufacturers: Bakery	Food Manufacturers: Meat-packers 3/	Textile-mill products	Apparel and other finished products	All manufacturing industries	15 retail food chains 3/
	Profits as percentage of stockholder equity							
1960	9.2	---	---	---	5.8	7.7	9.3	13.0
1961	9.4	---	---	---	5.0	7.3	8.9	12.0
1962	9.2	---	9.2	---	6.2	9.3	9.8	11.7
1963	9.3	8.6	9.4	---	6.1	7.7	10.3	11.4
1964	10.4	9.5	9.1	---	8.6	11.9	11.7	11.5
1965	11.0	10.7	9.2	---	10.9	12.8	13.1	11.3
1966	11.5	11.4	10.9	7.1	10.3	13.8	13.6	11.4
1967	11.1	10.3	12.2	11.5	7.6	12.2	11.8	10.3
1968	10.9	9.8	11.9	10.2	8.8	13.0	12.2	10.3
1969	11.0	10.1	8.6	8.8	7.9	11.9	11.5	10.4
1970	10.9	10.2	8.8	8.7	5.1	9.3	9.3	10.6
1971	11.1	11.1	10.7	10.8	6.7	11.2	9.7	10.1
1972	11.3	10.1	10.6	9.1	7.5	12.0	10.6	5.1
1973	12.8	10.8	5.8	11.2	9.0	10.8	12.6	7.6
1972								
January-March	10.1	10.0	11.3	---	6.4	10.9	9.5	---
April-June	11.7	11.1	11.3	---	7.3	9.3	1.3	---
July-September	10.9	10.0	10.4	---	7.3	12.4	10.1	---
October-December	11.7	9.6	9.6	---	9.0	15.1	11.5	---
1973								
January-March	11.2	9.6	8.1	---	8.4	8.0	11.6	---
April-June	12.5	11.1	5.0	---	11.1	14.6	14.0	---
July-September	13.7	12.7	1.4	---	8.6	6.3	12.3	---
October-December	15.2	9.6	8.6	---	7.9	14.3	13.4	---
	Profits as a percentage of sales							
1960	2.2	---	---	---	2.5	1.4	4.4	1.3
1961	2.2	---	---	---	2.1	1.3	4.3	1.2
1962	2.2	---	2.3	---	2.4	1.6	4.5	1.2
1963	2.2	1.9	2.2	---	2.3	1.4	4.7	1.2
1964	2.5	2.3	2.2	---	3.1	2.1	5.2	1.3
1965	2.6	2.5	2.1	---	3.8	2.3	5.6	1.2
1966	2.5	2.5	2.3	.9	3.6	2.4	5.6	1.2
1967	2.4	2.4	2.6	1.4	2.9	2.3	5.0	1.1
1968	2.4	2.3	2.6	1.2	3.1	2.4	5.1	1.1
1969	2.4	2.2	1.9	1.2	2.9	2.3	4.8	1.1
1970	2.3	2.1	1.9	.9	1.9	1.9	4.0	1.1
1971	2.4	2.3	2.3	1.3	2.4	2.4	4.1	.9
1972	2.4	2.0	2.2	1.0	2.6	2.4	4.3	.6
1973	2.5	2.0	1.1	1.1	2.8	2.0	4.7	.7
1972								
January-March	2.2	1.9	2.4	1.0	2.3	2.3	4.0	1.1
April-June	2.5	2.1	2.4	0.8	2.5	2.0	4.5	.4
July-September	2.3	2.0	2.2	0.9	2.6	2.3	4.2	.1
October-December	2.4	1.9	2.0	1.2	2.8	2.7	4.4	.8
1973								
January-March	2.2	1.9	1.6	1.0	2.8	1.6	4.5	0.4
April-June	2.4	2.0	1.0	.9	3.4	2.8	5.1	0.7
July-September	2.5	2.3	.3	1.0	2.8	1.2	4.6	0.5
October-December	3.0	1.7	1.4	1.5	2.5	2.6	5.6	1.0
1974								
January-March	2.5	---	---	1.3	3.1	---	5.6	0.9
April-June	---	---	---	1.0 4/				5/0.9

1/ Compiled from Quarterly Financial Report for Manufacturing Corporations published by the Federal Trade Commission and Securities and Exchange Commission. 2/ Food and kindred products excluding alcoholic beverages. 3/ Compiled from Moody's Industrial Manual. Data for 1973 and 1974 are preliminary. 4/ Based on 7 firms. 5/ Based on 11 firms.

Table 3. Profits after taxes as a percent of sales for 15 leading food chains, quarterly 1972-74

Chains	1972				1973				1974	
	I	II	III	IV	I	II	III	IV	I	II
	Percent of sales									
American	0.72	-0.50	-0.28	1.04	-0.13	0.54	0.56	0.98	0.99	0.97
Allied	0.18	0.05	0.07	0.43	0.18	1.02	0.09	0.53	-0.78	1/
Colonial	1.21	1.36	1.08	1.43	1.08	1.36	1.02	1.97	1.24	1.48
First National	0.61	-0.15	-0.19	0.08	0.26	-1.74	-0.83	-1.40	-4.06	0.22
Food Fair	0.76	0.02	-1.59	0.26	0.68	0.28	-1.16	0.32	0.63	0.41
Grand Union	0.81	0.75	0.40	0.39	0.86	0.40	0.43	0.48	-0.63	0.29
A&P	-0.11	-1.38	-1.33	-0.52	-0.24	0.15	-0.21	0.05	0.70	0.59
Jewel	2.45	1.09	1.26	1.40	2.36	0.88	2.22	2.15	1.37	1/
Kroger	1.13	0.45	-0.30	0.86	0.39	0.58	0.53	1.33	0.89	0.74
Lucky	2.47	1.47	1.32	1.36	1.93	1.29	1.35	1.59	1.59	1.36
National Tea	0.81	0.65	-1.01	0.01	2/-13.36	-1.71	-1.66	-1.54	-0.94	1/
Safeway	1.36	1.51	1.43	1.65	1.23	1.44	1.02	1.37	1.41	1.56
Stop & Shop	1.39	0.04	0.02	0.50	1.93	0.36	0.47	0.68	1.72	0.54
Winn Dixie	2.28	2.44	1.87	1.84	2.10	2.31	1.75	1.87	2.44	1/
Supermarkets General..	1.34	0.07	0.05	0.12	1.00	1.03	0.44	0.25	0.63	0.31
Average	1.08	0.40	0.11	0.77	0.37	0.68	0.47	0.98	0.86	0.91

1/ Not available. 2/ Reflects extraordinary charges associated with obligations on closed stores.

Compiled from Moody's Industrial Manual.

Mr. VIGORITO. Thank you very much, Mr. Cairns.

We will proceed with the next witness. I hope you can be available this afternoon.

Mr. CAIRNS. I can be, Mr. Chairman.

Mr. McINERNY. Mr. Chairman, may I add a 30-second footnote to the statement just to correct at the earliest possible moment Congressman Findley's statement earlier to the effect that A&P has been charged with fixing meat prices by the Department of Justice and has been found guilty.

I am sure that the Congressman must have been misinformed because the statement is not correct and I just can't believe that it was anything other than unintentional.

The fact is that I think the misunderstanding is occasioned by a private civil antitrust action in San Francisco in which there has been a jury verdict returned against A&P basically on the charge that it had been depressing the price of meat at the wholesale level.

Now, we have presently pending in the trial court there a motion to set aside that verdict on the ground that it has resulted from what we believe is a gross mischarge of justice. That is presently before the court. And I don't want to comment on the grounds for it. I think it would be inappropriate. If that motion is denied we will appeal the judgment and we are, of course, entitled to a full review by the Court of Appeals. So to say the least, sir, I think it is premature to condemn A&P in this hearing.

Mr. FINDLEY. Mr. Chairman, based on what he has said, it seems to me that my statement that A&P has been found guilty of price fixing is not too far from the truth, so I don't see any need to amend at this point.

Mr. McINERNY. I would respectfully except to that, sir. We still are in the trial court on this and——

Mr. FINDLEY. Of course. Appeal opportunities exist after the jury renders its verdict.

Mr. McINERNY. Which is not being considered by the trial judge.

Mr. VIGORITO. All right.

Thank you very much for your statement.

The next witness is Robert W. Braunschweig, of the Kroger Company.

Before you proceed, I wish to make this statement, that this hearing is being held by the Subcommittee on Domestic Marketing and Consumer Relations and this afternoon the Subcommittee will have first choice in asking questions of the witnesses. If time permits, other members of the Agricultural Committee will be given the opportunity to ask questions.

You may proceed, Mr. Braunschweig.

STATEMENT OF ROBERT W. BRAUNSCHWEIG, VICE PRESIDENT, THE KROGER CO., CINCINNATI, OHIO; ACCOMPANIED BY GEORGE LEONARD, GENERAL COUNSEL, AND RAY ABARAY, VICE PRESIDENT AND CORPORATE COMPTROLLER

Mr. BRAUNSCHWEIG. Mr. Chairman, my name is Robert W. Braunschweig. I have with me today two gentlemen from our company. One is our General Counsel, Mr. Leonard. He is with me at the table. The other is Mr. Abaray, who is our corporate comptroller.

I am Vice President of the Kroger Company, headquartered in Cincinnati, Ohio. My specific area of responsibility covers the procurement and merchandising of meat for Kroger Food Stores. That includes all beef, veal, lamb, fresh and processed pork, including luncheon meats, poultry and seafood.

Kroger Food Stores operates 1,249 supermarkets, principally in the midwest and the south, but also including Market Basket stores in southern California. We employ approximately 70,000 full and part time men and women in our food business. The data I give you today will relate to our food business.

Your subcommittee has heard previously from representatives of other segments of the meat production and distribution industries. Any discussion of beef prices and the farm-to-retail price spread would not be complete without retailing input. You as public policy makers must have the facts from all segments involved. We welcome the occasion to present facts which I believe will be meaningful and lend perspective to your deliberations.

At Kroger we have taken steps to help the cattleman move his product and to help consumers stretch their food dollar. We have consistently and aggressively promoted beef and have recently introduced a second grade of beef, which is also USDA inspected. In addition to USDA Choice, we are now also selling lower grade beef, under the brand name Thrifty Lean 'N Tender. In some markets, sales of this less expensive product exceed 50 percent of our retail beef sales. I have attached to my statement an ad promoting our USDA Choice beef, a second ad promoting our new Thrifty Lean 'N Tender beef and Choice beef, and a third ad promoting both Choice beef and beef from heavy calves. These ads show the savings offered consumers in the form of low prices for leaner types of beef and young beef. Our variety of merchandising programs give cattlemen a broader range of marketing opportunities. (See exhibits 1, 2, and 3, p. 168.)

Let me assure you—we want to sell beef. As a matter of fact, our beef tonnage in 1974 is up 17 percent compared to a U.S. beef production increase of 8.9 percent—through September 1974—which represents a larger tonnage increase than for any other major meat commodity sold in our stores. Beef is one of the most essential ingredients in our total merchandising mix. Without a successful beef program, we cannot be successful food retailers.

I have for you today, documentation which should establish the fact that no profiteering is occurring on our sale of beef. Those who make such a charge usually do so on the basis of the reported increase in retail margins as reflected in USDA's farm to retail price spread data. We respectfully disagree with USDA's figures and conclusions.

The National Commission on Food Marketing dealt with the same problem of beef margin distortions during 1964, 1965, and 1966. Their observation led to a special study of beef margins, which concluded that beef margins were overstated by USDA by 7 cents per pound. (NCFM Technical Study No. 1, pp. 71–79.) USDA has not acted to correct the errors in methodology that were identified in the Commission's study.

We have facts to show that USDA margin calculations today overstate the retailer's gross margin by up to 50 percent. We stand firmly on this. We have demonstrated this to the subcommittee in a supplemental statement which deals solely with this key issue.

[The supplemental statement referred to appears on p. 222.]

We have identified four sources of error in USDA methodology—not all will apply at the same time, nor will they necessarily work in the same direction—but they do contribute to errors in the calculated spread.

Because of USDA's gross overstatement of the retailers' margins, producers and the public have been misled.

Here is a brief summary of our own findings:

1. Inaccurate yields overstate margins: The USDA uses estimates of cutting yields to determine the number of pounds of beef from a steer carcass which is actually sold by the retailer to the consumer. Our current yield is 65 percent. However, USDA is still using our outmoded-yield figure of 71.9 percent which was determined in 1967–68. Thus, USDA says that from a 620 pound steer carcass, Kroger sells 446 pounds, when in fact, the retail yield is only 403 pounds.

On the basis of today's cattle market this means an overstatement of the wholesale-retail margin by about 8 to 9 cents per pound.

2. Inconsistency of farm and wholesale prices used: Beef price spreads are essentially price comparisons. In the case of the farm-wholesale price spread, such comparison is not between two fully comparable prices. The farm price reflects prices of all USDA Choice steers, while the wholesale dressed carcass price reflects prices of USDA Choice steers of a narrow weight range only, 600–700 pounds—not of all Choice dressed carcasses of all weights. Furthermore, no consideration is given to cutability.

Kroger buying specifications call for yield grade 2 and 3, 600–800 pounds. USDA choice grade steer carcasses. (Yield grade 2 and 3 carcasses will yield a higher percentage of retail cuts than yield grade 4 and 5 carcasses.) The prices typically paid for yield grades 2 and 3 represent the top of the range of prices paid for USDA choice grade steer carcasses in each specific weight group. Therefore, marketing margins based on average prices of either live steers and/or carcass beef will tend to be overstated, because the wholesale prices actually paid by Kroger are higher than those computed by USDA.

The net effect of this practice—comparing price data which are not comparable—is to overstate Kroger's beef marketing margins by an additional 5 to 10 cents a pound at retail as contrasted to Kroger's experience.

3. Serious omission of time lag: The marketing margins for beef are calculated by the USDA, using current prices at all three levels—farm, packer, and retail—with no time lag. The minimum length of time required for a steer to pass physically through the complete marketing process is 7 to 10 days. For some marketing programs, the required time for beef to pass physically through the system is substantially longer because of aging processes. The no-lag procedure causes confusion in the minds of cattlemen, economists, and consumers as to whether changes in farm prices are followed by appropriate changes in retail prices.

Because there is a lag between farm and retail prices, the calculated marketing margin will overstate the true marketing margin when farm prices are decreasing and understate it when farm prices are increasing. If the farm price drops by 10 cents a pound, the USDA reported farm-retail price spread is as much as 24.8 cents a pound higher than it actually is, and vice versa if the farm price increases.

4. Price and volume effects of advertised features not fully accounted for: The procedures established by USDA in 1969 do not allow for the present trend for weekend specials toward week-long specials which result in more beef being sold at feature prices. Therefore, the retail value of a carcass sold at retail is further overstated by the USDA.

The USDA assumes only proportional increases in consumer purchases as price discounts increase. Our merchandising experience tells us that this is not true. The tonnage of beef sold increases more than proportionally as price discounts become greater. In fact, about 70 percent of our beef is being sold at advertised feature prices.

The problem is in the fact that the USDA does not allow for the full tonnage movement when beef prices are low and beef merchandising is very aggressive. Their procedures do not reflect the price and volume effect of advertised features. They are not geared to reflecting the disporportionate consumer response.

An additional reporting problem has developed with the growing use of grades lower than USDA choice in retail promotion programs. This raises some critical points regarding the treatment of beef statistics. Currently, USDA choice beef is being used as representative of farm returns on one hand and of retail beef prices paid by the consumer on the other. The obvious impact of this practice will be an overstatement of beef prices paid by the consumer. As I mentioned, in some markets our sales of thrifty beef, undergrade beef, are exceeding 50 percent of our retail beef sales.

Other inconsistencies in USDA's methodology are completely detailed in the supplemental statement.

Since USDA information is inaccurate, let's see what has really happened to our margins in the total meat department and on beef.

As I give you data on the subject, I would like to point out that there are differences in accounting systems and measurements used by supermarket firms. It is important for you to know the meaning of terms we use.

As you are aware, when we talk about margins we mean the gross margins, or the difference between what we pay for the product and the amount actually received for it at the cash register. The gross margin is not the net profit from the sale. The gross margin is a function of expense. Gross margins hopefully cover all costs including charges for transportation, labor, packaging, storage, financing, in addition to a host of other costs, and a net profit—if possible. Gross margins do change and will tend to increase as operating and marketing costs increase unless offset by increased sales and improved productivity.

Inflation has also taken its toll in the food business by increasing our operating expenses very dramatically. Our gross margin rate in 1974 is only .7 percent higher than it was in 1960. During that same period our store expense rate increased 2.9 percent or 4 times as much. Let me mention a few examples to demonstrate the magnitude of the expense increases we have incurred during the past year.

1. Wages and fringe benefits represent 65 percent of the total cost of operating our stores. In the current year, the average hourly wage and fringe rate of employees in our stores is up to 12.3 percent over 1973. These rate increases have cost Kroger $34.6 million in additional store wage cost during the first 40 weeks of 1974. $7.3 million of this additional expense has been for meat department employees. Wage rates of our meat department employees have risen 102 percent in the past 10 years. Fringe benefit costs have risen even more.

2. The cost of meat trays is up 38 percent; the cost of grocery sacks is up 16 percent; the cost of meat wrapping film is up 67 percent—the annual cost increases in these exenses totals $4 million.

3. Freight cost of hauling beef from the packer to the retailer has risen by 17 percent.

4. Utility rates have risen as much as 75 percent depending on locale. These rate increases have resulted in an additional $3 million expense in the first 40 weeks of 1974—despite our energy-saving efforts.

5. The cost of a gallon of diesel fuel is up 97 percent. Even though we have significantly reduced the mileage of our fleet, this fuel increase will amount to over $2 million this year.

The increases in store wages and fringes, wrapping supplies, and utilities described above have added to our store operating cost by $40 million so far this year. These items above have represented a 10 percent increase in the total cost of operating our stories, without regard to further increases in other areas of store operations (store maintenance repair cost, taxes, interest, insurance, et cetera).

In the meat department, two cost factors alone—meat department wages and supplies—have increased substantially more than have meat department margins in 1974.

Here are the facts for the first 10 periods (40 weeks in 1974).

	Per pound
Increase in meat department wages	$0.7
Increase in meat department supplies	.2
Total cost increase from these two factors alone	.9
Actual markup increase, same 40 weeks	.1
Unrecovered cost increase	.8

Based on our meat tonnage in the first 40 weeks of 1974, the 8 cents per pound operating cost increases not recovered in increased markups total $6 million. Remember, this deficit reflects cost increases for supplies and wages only. It does not reflect the impact of other cost increases that cannot be readily measured on a cents-per-pound basis to the meat department.

Now, let's take a look at beef. We do not sell beef in a separate department. Beef is an integral part of a total meat deparment. Our accounting system does not allocate operating costs either to beef or to any other product. We can, however, give you facts relating to beef sales and markups.

As I have indicated, tonnage is rising. Although we are still behind the 1972 tonnage levels, we are ahead of 1973 by 17 percent and ahead of U.S. production increases.

In 1974 beef wholesale prices have ranged from 13.4 cents per pound higher to 10.6 cents per pound lower during comparable periods, versus a year ago. The greatest decline in wholesale costs versus a year ago occurred in our ninth period of 1974 (roughly August 11–Sept. 7). Beef retail and wholesale prices were frozen in 1973. Producers withheld cattle from the marketplace. Packers closed their doors because they could not operate profitably. In order to keep beef flowing to our consumers, we were forced to engage in so-called custom-killing. The resulting distortions in selling patterns caused us huge losses in tonnage and profit dollars, which we estimate to have been as much as $4 million.

There has been speculation that retailers are subsidizing total store operations out of increased margins from the sale of beef. This is not so. Our estimated beef gross margin rate during the first 40 weeks of 1974 has been 19.5 percent. Since our total store operating and overhead expense rate is 21.1 percent, it is obvious that we receive a lower gross margin rate on beef than the rate needed to break even in the total store. Because of consumer resistance to higher prices and because of competitive factors in the marketplace, we are unable to sell beef at a profit, much less use it to subsidize other store operations.

In the last seven accounting periods (28 weeks), our average retail price for beef has ranged from 2.3 cents–8.9 cents per pound below the comparable periods of last year. During the first 40 weeks of this year, our average retail beef price was four-tenths of a cent per pound, lower than 1973. Our beef cost-per-pound in 1974 is down 1.7 cents from 1973. Our cents-per-pound gross margin is up only 1.3 cents per pound over 1973.

Beef produces a lower cents-per-pound gross margin than most meats and meat products we sell, despite the fact that it requires more labor and wrapping supply expense than other types of meats. The 1.3 cents-per-pound improvement in gross margins has been less than what has been needed to cover our rising operating costs.

Finally, facts about our overall profit picture are necessary. Whether measured as a percent of sales or as a return on shareowners' equity, profits from our food buisness are below normal and are below those of most other industries.

The following information has been supplied to me by our financial people:

Our net earnings after taxes for our food business in 1973 were $\frac{4}{10}$ of 1 percent (0.39 percent) of sales or 4 cents on a $10 order. In the first three quarters of 1974, our earnings have been at the rate of $\frac{7}{10}$ (0.74 percent) of a cent of sales. The figures below show our food business earnings for 1970–1974 in comparison with other industries.

NET PROFIT—PERCENT RETURN ON SALES

	1970	1971	1972	1973	1974
Kroger food operations	0.98	0.89	0.30	0.39	0.74
Fortune 500 industrial firms (median profit margin)	3.9	3.8	4.1	4.5	

Measuring profits in another way—as a return on shareowners' equity, the same facts develop—profits are below normal and below those of other industries. 1973 net earnings from our food business were 4.4 percent of shareowners' equity falling from 11.5 percent in 1970. For the past four quarters, through the third quarter of 1974, that figure is 9.5 percent.

NET PROFIT—PERCENT RETURN ON SHAREOWNERS' EQUITY

	1970	1971	1972	1973	1974
Kroger food operations	11.5	10.0	3.3	4.4	[1] 9.5
Fortune 500 industrial firms (median return)	9.5	9.1	10.3	13.4	

[1] Last quarter 1973, plus 3 quarters 1974.

IN SUMMARY

USDA data overstates average beef prices realized by retailers—price and volume effect of specials; selling beef in other than carcass proportions.

USDA calculations overstate retailing margins by up to 50 percent.

Expenses have risen dramatically.

Increases in our gross margins have been less than our increases in costs.

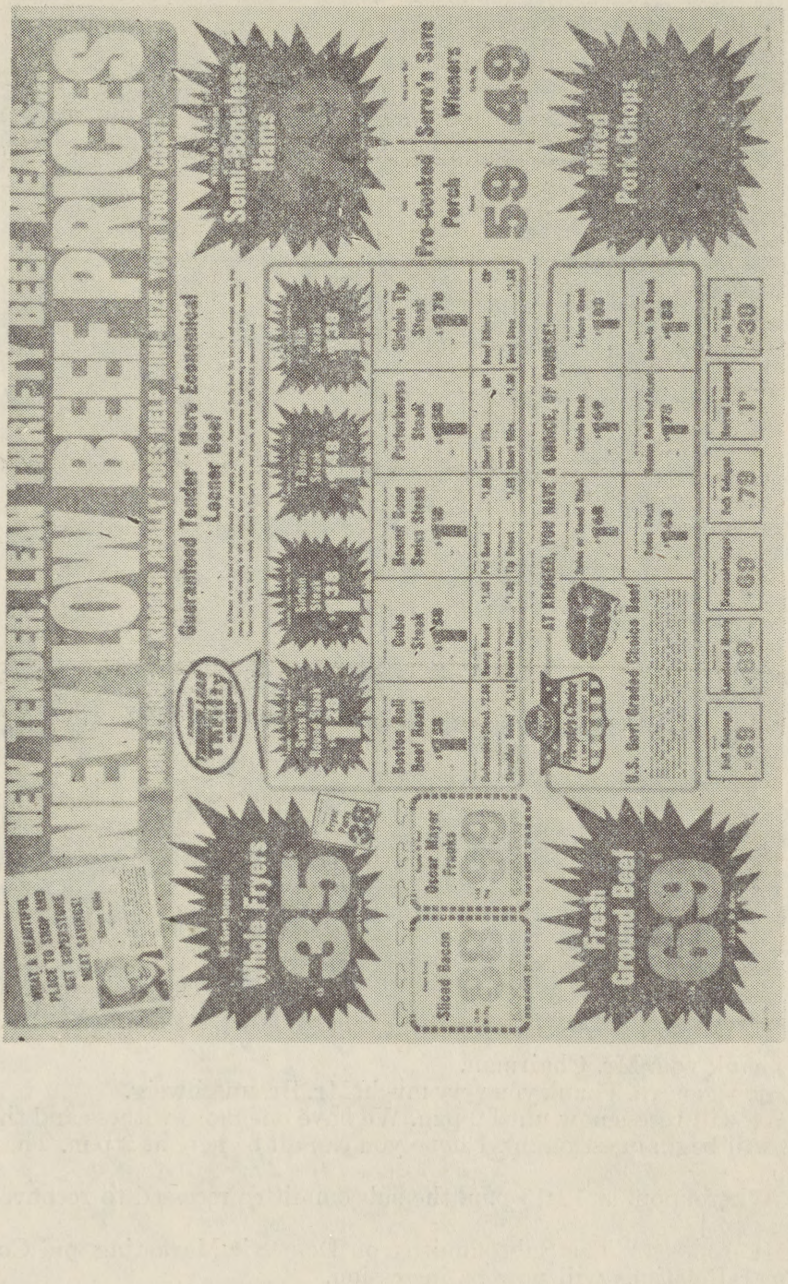
Our net profits are below normal levels and below most other industries.

We have been through a period of turmoil in the beef business. Adverse weather, Government policies actively promoting exports of feed grains, consumer boycotts, and truck strikes. Price controls and subsequent withholding actions by farmers have combined to seriously disrupt the marketing process. These facts help explain what is happening in the beef industry today. Perpetuation of false charges of profiteering at the retail level will merely serve to further erode consumer confidence and to further delay the return to beef tonnage levels of the past. This in turn works to the detriment of the cattle-producing segment of the industry and all others in the beef distribution system.

We want to sell more beef. We pledge a continuing effort to promote and sell beef, thereby assisting cattlemen and helping to satisfy the demands of the consumer.

[Exhibits 1, 2, and 3 referred to previously follow:]


Kroger
91st ANNIVERSARY SALE
Celebration Savings on Finest Meats
CELEBRATING 91 YEARS OF SERVICE AND SAVINGS TO HOMEMAKERS!
U.S. Choice "People's Choice" BEEF
Sirloin Steaks
T-Bone Steaks
Semi-Bnls. Ham
DELICATESSEN
Pork Roast
COOK-IN POUCH MEATS
GROUND BEEF
KROGER PRO
PORK STEAK
TURKEY NECKS
PURE PORK SAUSAGE
MEAT BOLOGNA
Frying Chicken
Fryer Quarters
Baking Hens
Sliced Bacon
Wieners
Cheese Pizza


NEW TENDER LEAN THRIFTY BEEF MEANS
NEW LOW BEEF PRICES
Guaranteed Tender · More Economical
Leaner Beef
Semi-Boneless Hams
Pre-Cooked Perch
59
Serve'n Save Wieners
49
Mixed Pork Chops
Whole Fryers
35
Fresh Ground Beef
69
Sliced Bacon
Oscar Mayer Franks
99
Boston Roll Beef Roast
Porterhouse Steak
Sirloin Tip Steak
AT KROGER, YOU HAVE A CHOICE, OF COURSE!
U.S. Gov't Graded Choice Beef

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you very much, Mr. Braunschweig.

We will recess now until 2 p.m. We have one more witness and then we will begin questioning. I hope you can all be here at 2 p.m. Thank you.

[Whereupon, at 12:15 p.m. the subcommittee recessed to reconvene at 2 p.m.]

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations will now be in session.

We will continue with the witnesses. Our next witness and last witness is, representing Giant Food, Inc., Mr. Joseph B. Danzansky. I believe he is going to be represented by someone else.

Mr. Forbes, is that correct?

Mr. FORBES. That is correct, sir.

STATEMENT OF JOSEPH B. DANZANSKY, PRESIDENT, GIANT FOOD, INC.; PRESENTED BY PAUL S. FORBES, EXECUTIVE ASSISTANT TO THE PRESIDENT; ACCOMPANIED BY DAVID B. SYKES, VICE PRESIDENT OF FINANCE; AND HERMAN PEARCE, MEAT BUYER

Mr. FORBES. Mr. Chairman and members of the committee, my name is Paul S. Forbes. I am executive assistant to the president, Giant Food, Inc., Joseph B. Danzansky, who is also serving this year as chairman of the board of directors of the National Association of Food Chains.

Giant Food, Inc., is a retail food chain operating in the Washington, D.C.-Virginia-Maryland area. Mr. Danzansky very much wanted to represent our company here today, but he suffered a disabling accident that prevented his appearance. He is asking me to substitute for him to read his testimony.

I am accompanied by David B. Sykes, vice president of finance, and Herman Pearce, meat buyer.

Here is Mr. Danzansky's statement.

While I am sorry I cannot be present in person, my enforced absence from the daily pressures of my job has placed the entire subject of these hearings in a better perspective for me. In developing my testimony, I have asked myself, "What should be my objective? What's really important?

"Is it to defend our industry and our company from unwarranted and often malicious attacks?

"Is it to level the finger of blame on some other hapless so-called culprit?

"Or is it to get on with President Ford's four C's, conciliation, compromise, communication and cooperation, that are our only sound hope for impacting inflation and its devasting effect on cattlemen, retailers and consumers alike?"

I have opted for the latter, and I sincerely hope that these are also the guideposts that the committee will use in the conduct of this hearing.

We have nothing to hide. We are proud of the efforts we have made and are making today to bring the public the best possible foods at the lowest possible cost. In working toward that goal, we have always regarded our suppliers as friends and partners, not as adversaries or potential victims.

Our representatives have been instructed to provide the committee with frank and specific replies to your specific questions. But I would respectfully suggest that the committee will soon determine that the best way to aid cattlemen is not to search for nonexisting black hats in the retail industry, but to talk to both our industries about getting more cattle on the consumer's table in a way that is fair to all concerned. And we don't need public hearings to do that.

I repeat, there are no identifiable villains who are responsible for high-retail prices and low-cattle profits. Cattlemen, feeders, packers, retailers, all are barely getting by, if at all.

The villain syndrome is not only unfair and unjustified, but it is counterproductive. While false charges against us offend retailers, they hurt cattlemen. Consumers don't buy when they think they are being ripped off, and while retailers can sell something else, cattlemen do not have that luxury. So when those who are concerned about cattlemen and their welfare start pointing fingers at us, they are only hurting their friends.

Yet the consumer is faced with stupendous food prices and is looking for a scapegoat. The greatest contribution this committee can make, in my opinion, is to get the message out loud and clear to the public and to all our constituencies that there is no ripoff by cattlemen or by retailers. Just as long as people believe there is a villain lurking out there somewhere who can be unmasked and forced to disgorge his illgotten gains, Americans are not going to truly come to grips with the unpleasant facts. We are faced with a worldwide shortage of basic commodities, an unprecedented shift of capital from West to East, devastating worldwide weather conditions, population explosion, mass starvation and international instability. Hard times are ahead for this Nation, times that will require a national greatness comparable to that evoked by Roosevelt in 1933 and Churchill in 1940. The American people are not well-served by those who seek selfish but illusory advantage for themselves or their special constituencies at the expense of others. There are no painless or quick solutions. Let's tell them the truth. They have the strength and the maturity to rally to frank and bold leadership by our Government in facing the hard choices that lie ahead.

The times call for greatness, and now that the people have spoken, I sense that the Congress and the administration are ready to seize this moment.

Before proceeding to a discussion of beef margins, a word about the misunderstanding by the committee over our initial invitation to testify.

When Esther Peterson, our vice president for consumer programs was telephoned by a member of your staff a few days before the schedule hearing and invited to appear, she was told that her appearance was completely voluntary and that A. & P., Safeway, and Kroger had already agreed to appear. Since Mrs. Peterson, Mr. Pearce, and I each had other commitments on the day of the hearings, I instructed her to inform the staff person that we would be happy to associate ourselves with the testimony of the other three companies, and with that of Clarence Adamy, president of NAFC, who had already testified. Nothing further was said to us at that time about an urgency that we testify, and we were offered no alternate dates. The next thing we knew, we were being reprimanded by the committee for failure to cooperate, and threatened with a subpena.

Our company has appeared before congressional committees many times in the past, and we are fully committed to a policy of cooperation. We therefore are saddened that the record shows that the committee regards us as uncooperative, and we respectfully request that the record be corrected in light of the circumstances.

I would like to begin this testimony by going directly to the heart of the committee's concern. Are Giant's meat margins out of line? Do we use excessive profits from the meat department to subsidize other departments in our stores?

The answer to both questions is an emphatic, "No." If anything, the reverse is true.

Historically, the entire meat department, particularly beef, has served as a near-loss leader for the store. Most people plan their meals around the meat dish, and good meat prices attract them to our stores. The incentive is to keep meat prices, and therefore margins, as low as possible and to special meat when we can. Margins on meat, particularly beef, tend to be razor thin.

Mr. VIGORITO. The bells are ringing. There are two votes on the floor, so the committee will stand in recess for 15 minutes, and at that time we should have taken care of both bills.

[A brief recess was taken.]

Mr. VIGORITO. The Subcommittee on Domestic Marketing and Consumer Relations will resume its hearings.

Mr. Forbes was in the middle of his presentation. You may continue, Mr. Forbes.

Mr. FORBES. Since meat is such an impressionable item, price increases from our suppliers are passed along only with the greatest reluctance and with a glance at competition to see if they are accompanying us into the eye of the storm of consumer resistance. There is often a considerable lag on an up-market as chains wait for each other to be the first to pass along the increase to the consumer. This, in effect, rounds off the peaks in a rising market as our margins shrink.

When the price from our supplier declines, we reflect it much more rapidly. Of course, the abnormally narrowed margins that resulted from the rising market are reported to a more normal percentage. Only in relation to the abnormally squeezed margin can this be regarded as expansion.

Now, let's take a look at our margins on beef during the past year. Table 1 illustrates the spread between our wholesale costs and our retail prices. This includes carcass beef, all beef primals and subprimals. We have added to our costs warehousing charges, trucking, wrapping materials and shrinkage. We have deducted from cost the dollars received from fat and bone sales. The net of these factors adds about 2 cents a pound to our costs, on the average.

In reviewing these figures, it is important to keep in mind that we do not have a beef key on our cash registers. Beef is not a separate department. We therefore are providing you with billed gross profit figures, which are the ones we use internally. While they are somewhat imprecise, we have found them to be consistently accurate over a long period.

Now, let's examine table 1. The first column lists our 4-week accounting periods from March 24, 1973, through November 2, 1974.

The second column shows our beef costs, including rail stock, primals and subprimals, plus an allowance of 2 cents per pound for warehousing, transportation, and wrapping materials. Dollars realized from the sale of bone and fat are credited back to help defray these costs.

Column 3 is the average price per pound charged in our stores. There is an allowance of 7 days computed between the time the wholesale price is quoted and the time the product is priced and sold in our stores.

Column 4 is the difference between columns 2 and 3 and is the gross margin per pound for beef as regularly computed by our company.

Our accounting methods have remained consistent during the entire period covered by this table, so the margins shown accurately reflect the trend of our pricing policies.

The gross margins are converted to percentages in the final column.

TABLE I

Beef Statistics - Giant Food Inc.

	Period Ending	Cost Per Lb.	Retail Per Lb.	Gross Margin Per Lb.	Gross Margi'
	3/24/73	.90	1.06	.16	15.09%
	4/21/73	.83	.98	.15	15.31%
	5/19/73	.87	.97	.10	10.31%
	6/16/73	.83	.99	.16	16.16%
	7/14/73	.87	1.04	.17	16.35%
	8/11/73	.90	1.00	.10	10.00%
	9/08/73	1.02	1.03	.01	.97%
	10/06/73	.87	1.08	.21	19.44%
	11/03/73	.81	.98	.17	17.35%
	12/01/73	.78	.93	.15	16.13%
	12/29/73	.83	.96	.13	13.54%
	1/26/74	.87	.97	.10	10.31%
	2/23/74	.93	1.09	.16	14.68%
F/Y/E	2/23/74	.87	1.01	.14	13.86%
	3/23/74	.91	1.04	.13	12.50%
	4/20/74	.85	.92	.07	7.60%
	5/18/74	.81	.86	.05	5.81%
	6/15/74	.81	.88	.07	7.95%
	7/13/74	.80	.89	.09	10.11%
	8/10/74	.88	.96	.08	8.33%
	9/07/74	.92	1.06	.14	13.21%
	10/5/74	.89	1.06	.17	16.04%
	11/2/74	.80	.91	.11	12.09%
	Year to date: (2/24/74 thru 11/2/74)	.85	.94	.09	9.57%

Now I would like to go through that chart. If you take cost per pound on March 24, 1973, our cost was 90 cents per pound.

If you move down to the fiscal year ending on February 23, 1974, our cost per pound had averaged out at 87 cents for the year, for the fiscal year. We began the new fiscal year on April 23, 1974, at 91 cents, which was approximately the same cost as the previous year, and for this year, to date, we have averaged 85 cents a pound. The trend of cost has been from 87 cents at the end of the fiscal year down to 85 cents through the year to date.

If you will look at the next column you will see that our retailers started out at $1.06 back in March of 1973, and for the end of the fiscal year the retailers have gone down to $1.01 for the average. The new fiscal year began at $1.04 a pound and we ended the year at 94 cents a pound, so the retail has trended down also.

The gross margin, using the comparable figures, we started out at the beginning of 1973 with 16 cents per pound gross margin. For the year we were 14 cents for that fiscal year. We began the new fiscal year at 13 cents, and the current year to date we are going at 9 cents. So there has been a continued trend down, 9 cents this year versus 14 cents for the end of the previous fiscal year.

As I indicated, for the 36 weeks through November 2, 1974, our average gross margin on beef has been 9 cents a pound or 9.57 percent of sales.

For the 52 weeks ended February 23, 1974, Giant's fiscal year, gross margin per pound averaged 14 cents or 13.86 percent of sales. On a per pound basis, the drop in gross margin from 14 cents to 9 cents represents a decline of nearly 36 percent, while labor and fring costs increased 15 percent.

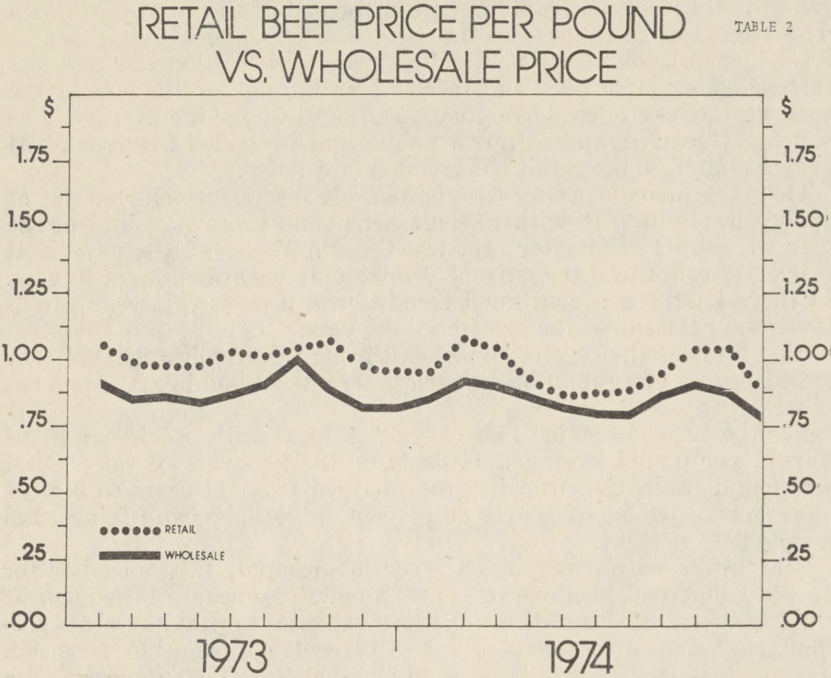
Beef by its nature requires a large labor input. In-store labor for the meat department alone presently amounts to nearly 13 percent of sales. The cost of other direct in-store expenses approximately 5 percent of sales for a total expense of 18 percent, not counting overhead. It is obvious that beef is being sold at a net loss. That was true on a 14 percent gross margin and it is certainly true now with a 9 percent gross margin. Beef is being subsidized by other products, and not the other way around.

In 1974, Giant responded to tne cattlemen's cry to move beef by featuring it in 20 out of 36 weeks. This compares with 15 weekly beef specials on the comparable period last year. As a result, Giant's beef tonnage movement is up over the same period of the prior year by 20 percent. We at Giant have responded, we've made no money on beef, but have increased our tonnage movement. Featuring beef increases our tonnage but lowers our retails, our margins, and our profit on sales.

Our low point was in September 1973 when we plummeted to a gross margin of 1 cent per pound as a result of the ill-advised beef freeze. We were dangerously close to that situation again during the spring of 1974. During our most recent period, our margin was 11 cents a pound, or 12 percent of sales, still below our out-of-pocket costs for store labor. The narrowness of the spread is dramatically illustrated by Table 2, and I have a large chart here.

The first peak on the left is custom slaughtering and you can see the spread narrows to practically nothing toward the right end, and that is the early part of 1974.

TABLE 2



Yet we continue to hear from the Agriculture Department and others that we retailers are enjoying an unconscionable spread on beef, to offset lower margins in other departments.

At this point, I would like to make some observations about those USDA spread figures. We don't use them in our industry because we have consistently found that they have little relationship with the real world. I have just shown that our current year-to-date spread is about 9 cents per pound. Yet the October 26 year-to-date carcass-to-retail spread figure is given at 47.6 cents per pound, by USDA.

While we compute our costs somewhat differently than USDA does, it is immediately apparent that our spread by any measure, is far less than 47.6 percent. USDA's charges that the spread is widening are just as wide of the mark. I quote testimony before this committee by Mr. J. Dawson Ahalt of USDA, "profits for retailing meat increased sharply during the first half of 1974." Yet during the first half of 1974, our gross margins for beef were as follows: January of 1974, 10.31 percent; February 1974, 14.68 percent; March of 1974, 12.50 percent; April of 1974, 7.60 percent; May of 1974, 5.81 percent; and June of 1974, 7.95 percent.

We would not mind the criticism if indeed we were enjoying the profits we are supposed to be getting.

Until now, I have addressed myself to the subject of beef prices because that is the area of the committee's primary concern at the moment. To place this matter in its proper perspective, however, I believe the committee ought to have a brief glimpse at the overall financial situation of today's food chains.

I wish to state flatly here that far from being a villian responsible for this inflation, the food retailer, like the cattleman, has been its victim. In support of this statement, I submit the following Table No. 3, which shows the percentage net profit on sales for the Fortune 500 industrial companies, for 29 major food retailers listed in Fortune, and for Giant Foods, Inc.

TABLE 3

PERCENT OF NET PROFIT RETURN ON SALES

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1st Half 1973	1st Half 1974
Fortune 500 Industrials	5.0	5.5	5.6	5.0	4.8	4.6	3.9	3.8	4.1	4.5	N.A.	N.A.
Food Retailing*	1.3	1.3	1.2	[illegible]	[illegible]	[illegible]	[illegible]	1.0	.65	75	N.A	N.A.
Giant Food Inc.	1.05	1.39	1.13	1.28	1.30	1.42	.88	1.33	1.05	1.11	72	.95

*29 Major Publicly Owned Supermarket Companies (in Fortune)

TABLE 4

PERCENT OF NET PROFIT RETURN ON NET WORTH

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1st Half 1973	1st Half 1974
Fortune 500 Industrials	10.5	11.8	12.7	11.3	11.7	11.3	9.5	9.1	10.3	12.4	N.A.	N.A.
Food Retailing*	11.4	11.4	11.5	10.5	10.9	11.0	10.7	9.8	6.9	8.3	N.A.	N.A.
Giant Food Inc.	10.29	14.02	11.54	13.75	14.30	15.59	9.82	15.09	11.51	12.27	8.02	10.8

*29 Major Publicly Owned Supermarket Companies

As you can see, earnings in our industry have always been a fraction of those earned by the 500 industrials, and our earnings have been close to the industry average. Parenthetically, Donald Perkins, Chairman of the Board, Jewel Companies, Inc., recently observed that while the 11 largest general merchandise retailers had 1973 sales approximating those of the 29 food retailers, their profits were 4½ times greater. And I am not suggesting that their profits were not deserved. Yet it is food retailers, with consistently lower earnings, who are constantly being criticized. If all the earnings of food retailers were turned over to consumers, it wouldn't even make a blip on the consumer price index. It would add up to less than 8 cents a week per person.

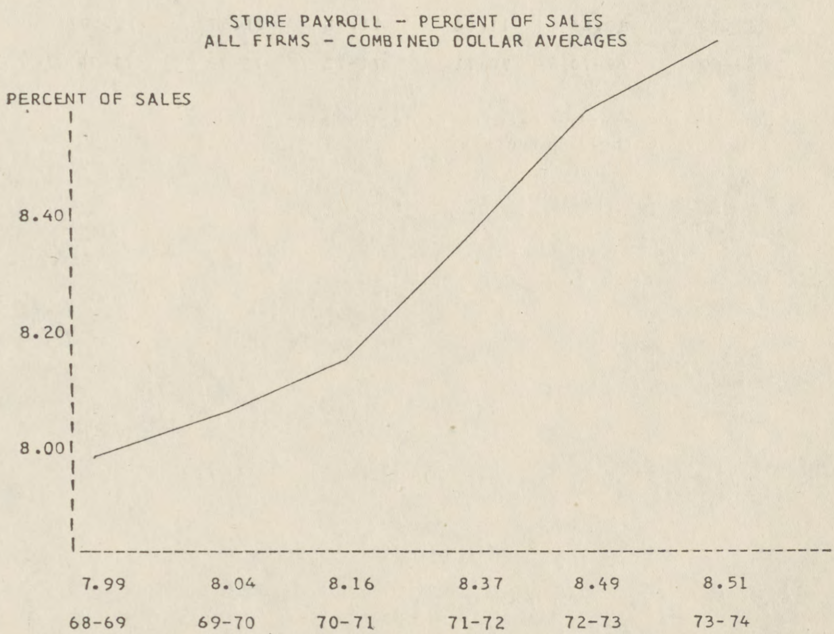
Some prefer to look at percentage net profit return on equity as a measure. Here again, let's look at the Fortune 500 industrials as compared with 29 supermarket firms.

Return on equity in our business tended to compare favorably with the Fortune 500 industrials until 1972. At Giant, our return on equity also began dropping in 1972 and is today at or near a historically low level.

With interest today at double-digit figures, it does not take much imagination to deduce that far from being excessive, our return on investment today is dangerously low. It threatens our ability not only to survive and prosper, but to finance the new technology that is our main hope of increasing productivity and thereby moderating the rise in food prices.

The need for increased productivity is graphically revealed in tables 5, 6, and 7, which detail the steep rise in employee benefits and compensation as a percent of sales.

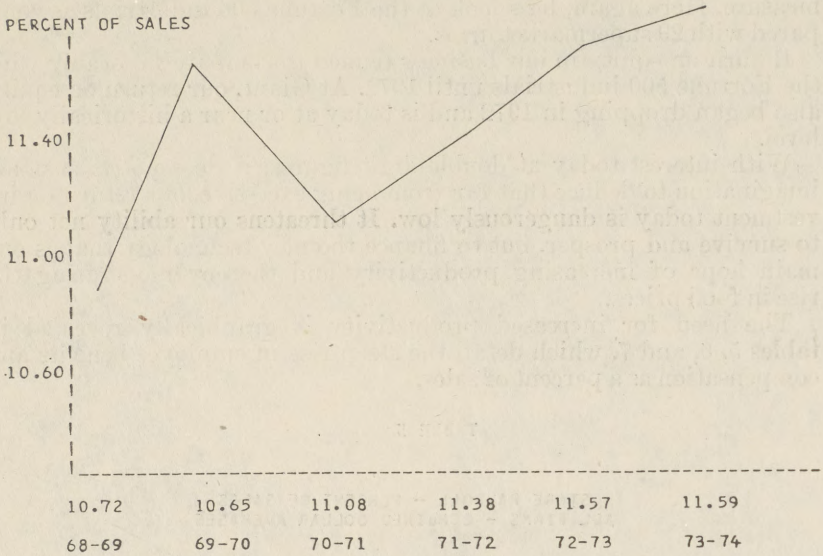
TABLE 5



Source: "Operating Results of Food Chains 1973-74"
Cornell University

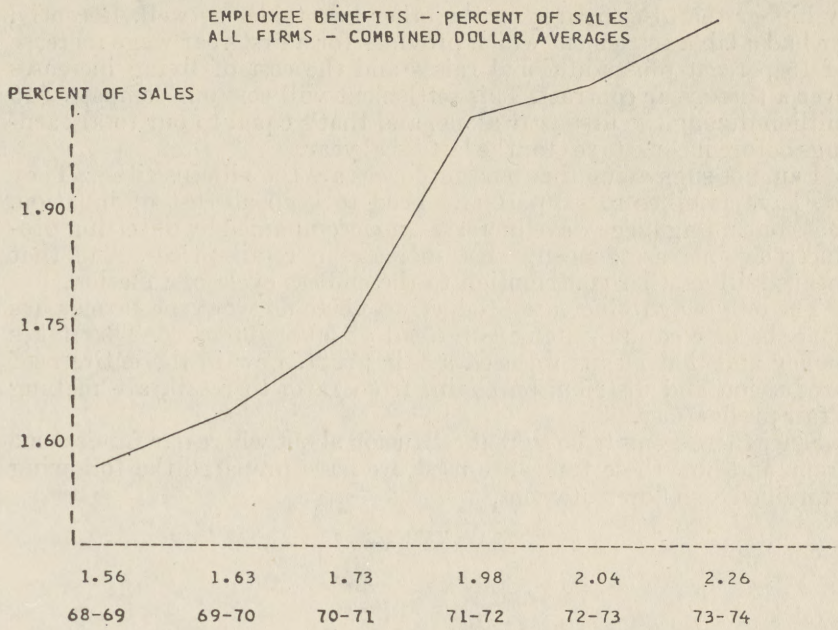
TABLE 6

TOTAL PAYROLL - PERCENT OF SALES
ALL FIRMS - COMBINED DOLLAR AVERAGES



Source: "Operating Results of Food Chains 1973-74"
Cornell University

TABLE 7



Source: "Operating Results of Food Chains 1973-74"
Cornell University

On table 5 you will note in 1968–69, store payrolls, percentage of sales for the industry was .99 percent; in 1973–74 it was 8.51 percent. And in table 6, total payroll in 1968–69 is given for the industry as 7.2 percent of sales; 1973–74, 11.9 percent of firms.

My own firm's total payroll is substantially higher than 11.5 percent of sales. It is in excess of 13 percent of sales. And we are proportionately higher than the figures on the other two tables as well. Recently, we had a labor settlement which provides for a first year wage increase of 15 percent plus additional raises and the cost of living increases over a three year contract. This settlement will cost our company $15 million during the first year alone, and that's equal to our total earnings before income taxes for the last fiscal year.

I am not suggesting that our employees are the villains either. They too have families to support and need to keep abreast of inflation. But continuing large wave increases, unaccompanied by offsetting productivity increases, mean a net increase in retail prices. And that means still another contribution to the endless cycle of inflation.

The only way to increase productivity is to do what the farmer has done, become capital-intensive instead of labor-intensive. That takes money and that means we need a fair profit. Few in the entire beef production and distribution chain, from farm to retail, are making a fair profit today.

Since there seems to be a great confusion about where our funds come from, and how these funds are used, we have prepared the following simplified cash flow statement.

TABLE 8

GIANT FOOD INC.

(52 WEEKS ENDED FEBRUARY 23, 1974)

	(IN MILLIONS)
CASH GENERATED FROM:	
PROFIT	$ 7.4
DEPRECIATION & DEFERRED ITEMS	9.1
NEW DEBT	10.0
OTHER	.3
TOTAL	$ 26.8
CASH USED FOR:	
WORKING CAPITAL (INVENTORIES AND CASH)	$ 12.2
LAND, BUILDINGS, EQUIPMENT, TRUCKS	12.7
DIVIDENDS TO SHAREHOLDERS	1.6
OTHER	.3
TOTAL	$ 26.8

You can readily see that Giant had profits of $7.4 million and depreciation and deferred items of $9.1 million. Of this total of $16.5 million, $12.7 million was used principally to open eight new stores, for remodeling and replacements, and for warehousing and transportation equipment to back up our growing company. New debt of $10 million provided nearly all of our working capital increase, inventories, cash and other items, and something left over for 1974's expansion.

Dividends of $1.6 million represent a modest return to shareholders, an approximate payout of 22 percent of net earnings.

That is our story. It is the whole truth. We believe it lays to rest, once and for all, the gross misunderstandings that have previously existed on the subject of retail beef margins.

Now I believe it is time to look for tangible ways in which all of us, Government, cattlemen, packers, retailers, labor and consumers, can begin to work together to find solutions to the grave economic problems that bedevil us all.

In closing, I am reminded of these words of President Lincoln, which many years later, inspired President Franklin Roosevelt and are equally appropriate today.

> We cannot escape history. We of this Congress, and of this Administration, will be remembered in spite of ourselves. No personal significance or insignificance can spare one or another of us. The fiery trials through which we pass will light us in honor or dishonor until the latest generations.

I thank you for the opportunity to appear before you today.

Mr. VIGORITO. Thank you, Mr. Forbes, for your statement. I must add, a well-presented statement, full of facts and figures.

Now, will the rest of the gentlemen who testified earlier, will you come to the desk so we can have some questions and answers here?

The CHAIRMAN. I woud like to ask a few questions, to get at a facet of this that you very naturally passed over. I think every one of you made good presentations, and have answered very fairly the questions relating to your company's activities. But you are in a position to know more about this trade than any of us are, and we are interested in some aspects you did not touch upon. I do not mean that anything is going on, but I am interested in knowing if we can get some general agreement about certain facts.

The cattleman down in my country, of course, believes that he is probably getting only 10 percent of what he got a year ago. I understand that he is getting more than that, but I think it is fair to say that some of us think that he is not getting more than 10 cents on a dollar than they were getting a year ago, or 18 months ago; and he probably thinks you are getting twice as much as you got a year ago. I have some figures that were supplied from another source. I do not know that they are any better than yours at all, but I am just wondering if these are not probably about right; and if we can get a lineup across the board without getting into each individual store. I have figures suggesting that the retail on profit price of beef in 1973 was $1.36.

Now, I do not want to ask any of you if you say that that is exactly the price we charge. I am not asking you that. But is that in the range of what you feel that it probably was 18 months ago? What would you say was the price?

Mr. BRAUNSCHWEIG. Your question was what it was?

The CHAIRMAN. 1973.

Mr. BRAUNSCHWEIG. Our average retail in May of 1973 on carcass beef was $1.09½.

The CHAIRMAN. I said retail, the retail price.

Mr. BRAUNSCHWEIG. That was our retail.

The CHAIRMAN. That is what you sell the carcass for, $1.09?

Mr. BRAUNSCHWEIG. $1.09½ a pound.

The CHAIRMAN. All right.

Let's get the same figures. Last month, it was $1.36. What do you figure yours was?

Mr. BRAUNSCHWEIG. The month of October 1974, it was $1.09.9.

The CHAIRMAN. $1.09.9. It shows about the same basic thing that I think this shows. Evidently, you took a different point of the year, but the change in price has been substantially the same. In other words, you are selling beef at substantially the price now that you sold it 18 months ago.

Is that right?

Mr. BRAUNSCHWEIG. Yes, sir.

The CHAIRMAN. Do the rest of you agree that your retail prices are substantially the same? I do not mean 3, 4 cents off. Are they in the same range that they were 18 months ago? Are there any of you that feel that your prices are not within the same general range that they were 18 months ago

Mr. SYKES. They are in a similar range.

The CHAIRMAN. If I hear no nays, I am going to assume that you all are agreeing that they are in the same general range that they were 18 months ago.

All right, we will assume that.

Now, I have seen—this is from another source, but we are just trying to get something that we can agree on—this would indicate that 18 months ago, that choice steers in Omaha, 1100-pound choice steers, were bringing $46.05. That is the live price. Of course, I know you do not buy live cattle, but does that sound out of line, $46.05 for 18 months ago?

Does anybody feel that that is completely out of line?

Mr. BRAUNSCHWEIG. I have no way of knowing.

Mr. CAIRNS. I do not, either.

The CHAIRMAN. You must have had some idea about it, or you would not have bought it at the time. You obviously bought them at what you felt was a reasonable price. Do you know what the price is today on live steers?

Mr. BRAUNSCHWEIG. No, I do not.

Mr. CAIRNS. All the prices I have are on cattle carcasses.

The CHAIRMAN. I understand that. But I am not trying to impede your testimony in any way. I am simply trying to get what these facts are. Of course, our packers are gone, but one of them testified this morning that the price was about 36 cents, as against 39 cents. Surely, the present price is somewhere in that range, is it not, something between 35 and 40 cents, is it not?

Mr. Bergland.

Mr. BERGLAND. Mr. Chairman, if you would yield on that; according to the market report of today, on Friday, choice steers at Omaha were worth $36.50. On Monday, they were worth $37.60.

The CHAIRMAN. That is in the range that we are talking about. The same source for these figures would indicate that 18 months ago that the price was 12 cents higher. That is about 15 percent, 16 or 17 percent drop. That is about—of course all our producers think they have dropped a whole lot more than that, but you would assume that that is about the drop in price of live animals.

Do you think that is unreasonable, that that is about the change in the price of live animals?

If you do not have any protest about that, we will assume that is right. These same figures indicate in May, 1974, that cows were selling for $34.20 and as of November 15, last week, they were bringing $18.25, and of course that is the much larger drop, almost 50 percent. And I think that is one of the reasons there has been a feeling that there has been such a tremendous drop in the price of live beef, is because so many of our producers have been selling these old cattle, and they have been going to market instead of fatstuff.

I know you want to say that you sell higher grade stuff but you use those old cows for processed meat. Those old cows have dropped in price about 45 percent. I think that is fair to say, is it not, that those old cows are taking a beating far worse than this beef from the feedlot that has received most of the publicity.

Do any of you feel that that is contrary to the facts?

Mr. CAIRNS. I really do not know.

Mr. SYKES. From Giant's standpoint we just do not know.

The CHAIRMAN. You fellows are in the business. You are spending millions of dollars. You do know something. If not, you would not be holding a job. You do know something about this market.

You have to know something about it to stay in business.

Now, I am not trying to take issue with you, but I am not going to let any of you come in here and plead ignorance here because you are the best informed gentlemen in the United States on the price of beef. There is nobody here that has got the wealth of information that you six gentlemen who sit there at that table have.

Mr. CAIRNS. The problem, Congressman, is, our figures, again, are for carcasses. We really do not relate to the price of the live animal.

The CHAIRMAN. I agree with that but remember we are interested too in that fellow who is selling the live animal.

Mr. CAIRNS. Absolutely.

The CHAIRMAN. We are trying to get some idea where he stands too. You have made a good case. You have said as we would say down in Texas, "Me no go Alamo, me no Goliad."

The packers say the same thing, the farmers say the same thing, and I think he can prove his case.

I am not suggesting you have not proven yours. What I am trying to state is that there still exists in spite of what you say, there still exists the uncontroverted fact that there has been a very severe drop in the price of live animals. Let's not quibble whether it was 47 percent or whether it was 36 percent. There has been a very serious drop in the price of live animals. There has been practically no drop, if any, in your prices. They have remained almost constant.

If I understand it, if a free enterprise system is going to work, it has to work on the basis that when we get an oversupply of commodity, that the price goes down, and therefore there is a greater demand for the commodity than there otherwise would be.

That is the way the free enterprise system takes care of these circumstances. The price has not gone down on this beef that the consumer is asked to buy, and how much more is she buying now? She has more money but how much more is she buying now than she was buying 18 months ago?

Do any of you know?

Mr. BRAUNSCHWEIG. Our tonnage is up 17 percent.

The CHAIRMAN. 17 percent?

Mr. BRAUNSCHWEIG. Yes.

Mr. CAIRNS. Ours is up 10 percent.

Mr. MITCHELL. At Safeway in the third quarter of this year versus the third quarter of last year, it is up 21 percent.

Mr. SYKES. We are up 20 percent.

The CHAIRMAN. They sound like pretty good increases to me, better than I anticipated that they would be. Certainly, that is the way that the free enterprise system must work. The price must go down to increase the consumption, and then you eat up these services and the price levels off. And then you move back towards the stability of supply and demand.

But if your price remains the same, and it is remaining substantially the same—and I am not saying that you are guilty of any fraud or anything of the kind—what you have done, as I see it, is you have taken the returns that you have gotten from sale of this beef to pay the increased wages, pay the increased utility bills, pay the increased rent bills, pay the increased transportation bills. You have paid everybody's increases except the farmer.

I am not blaming you for that. You are under no obligation. He just happened to be the weakest link in that chain, did he not?

Is that not right? Do any of you disagree with that?

Mr. SYKES. Mr. Chairman, may I refer you to table I of Giant's presentation. We indicate that our costs paid was 87 cents for fiscal year 1974 and it is 85 cents now, whereas our retail was $1.01 for that fiscal year as compared with 94 cents present.

The CHAIRMAN. You do agree that you have kept the price substantially where it was. You have had to do that of course, to pay all of these additional costs.

Mr. SYKES. We have reduced our retail per pound by 7 cents. That is a substantial decrease.

The CHAIRMAN. Just a minute. I thought most of you were agreeing that your price was about the same as it was. All right, let us get this straight. I do not want to put you in the position of saying something you did not say.

Now I believe—I do not know which one of those gentlemen you represent, I believe you represent Giant. I believe some of you agree that the price was about $1.09 a year ago and about $1.09 at the present time.

Mr. BRAUNSCHWEIG. Your original question was what the price was in May of 1973, and I said $1.09½.

The CHAIRMAN. All right.

Mr. BRAUNSCHWEIG. Your second question, what was the price in the last accounting period. And I responded, $1.09.9.

The CHAIRMAN. That is what I am getting at. I am not quibbling about 0.9 percent, or 9 cents. I am just talking about keeping the price roughly the same. But during the same period of time, there clearly was—and I do not think anybody would deny it—I ask you if you felt you had any knowledge to deny it. I will give you another opportunity. If you feel there was not a drop in the price of live animals, I want you to stand up here, give your name to the reporter, and let us get it clear.

Are there any of you that feel that there was not a substantial drop to producers, a drop of 15 to 30, 40 percent? If you do not believe it, get up. Then let us put it in the record, and tell me what do you think it was to the producer?

Gentlemen, this is why we do not get anywhere. We come here, and we listen to the statements—you all make good statements, every one of you, and I think we understand where your money is going, and I are not chiding you about where your money is going. I do not think you are making these exorbitant profits that somebody said, but you have been spending this money. You have taken all of that drop that the farmer took and used it to pay your running expenses. You have had a big increase in utilities, have you not? You have had a big increase in rent. You have had even a larger increase in labor costs. You have had a big increase in fringe benefits. You have had a big increase in insurance. You have had a substantial increase in the interest you were paying.

But you have paid all of those increases, have you not? You paid every one.

Now, there is not one of you that owes for last month's rent. Not one of you who has not kept your interest paid up at the bank. You have paid those costs. Your only cost that has not been paid—again, gentlemen, I am not chiding you about those, but I think the world should know it. The only cost that has not been paid has been the producers' cost. Everything else has been paid. Everybody else has had the ability to force you to pay it. The producer, unfortunately, has not had that ability. If he had that ability, you of course would have paid it, whatever he could force you to pay. That is the way we do business, of course.

I am not criticizing, but is that not a fact? You would buy those cattle as cheaply as you can. If you did not, you would fire your buyer, of course, and we are not suggesting that you should give this to the producer. I am just trying to get an understanding here, so that when you gentlemen leave, somebody is not going to come up and say, well now, we did not agree that we were selling meat for about what we did last time. The gentlemen there do not agree to it. He said he is selling it for substantially less than he was 18 months ago, but most of us seem to find that meat is selling in those places at substantially what it brought 18 months ago.

Mr. Cairns. In my statement, Congressman, we did not break out beef retails. We used meat retails. It depends how you define significantly.

How I would answer you, the second quarter last year, our average retail price was \$1.05. The second quarter of this year it is 99 cents, down 6 cents, depending how you define significant.

The Chairman. Six percent reduction?

Mr. Cairns. That is right.

The Chairman. The cattle prices have gone down anywhere from 25 to 30 percent, certainly in the case of the old cows, they have gone down 50 percent.

Mr. CAIRNS. I brought with me, Congressman, the paying price for carcass cattle from January, this year, through October by month.

The CHAIRMAN. I do not blame you for wanting to talk to us about what you pay. I realize that is the thing that you are interested in.

I am interested in, what did that farmer get? Somebody, somewhere has used money that he did not have. I am not saying in a critical sense, but somebody now has more money than he had available 18 months ago in this chain of transactions. I think it is clear that you gentlemen have had the money. I am not suggesting you pocketed the money. I am not suggesting there is anything wrong with it.

I am suggesting that you gave your workers 12½ percent increase, you paid the banks—I do not remember the figures, 5 or 6 percent more—you paid the utilities maybe 15 percent more. I am not trying to quote your exact figures. You paid all of those people more.

What I am wanting to find out is if you seriously criticize my statement when I say that you paid everybody their increases at the expense of the producer?

Mr. MITCHELL. I would not agree with that in the Safeway company. I think we are confusing several things here.

We submitted our statement on the basis of gross profit. This has nothing to do with the utility bills, Diesel oil, wages, or anything of that kind. We are talking——

The CHAIRMAN. I am not criticizing your statement at all.

Mr. MITCHELL. We are talking about the spread between our costs and our selling price.

The CHAIRMAN. That is not what I am talking about, Mr. Mitchell. I am talking about the spread between what the farmer or rancher gets for his cattle. I am not even talking about a feedlot operator. I am talking about what a farmer or rancher got for that cattle, and what you got.

And I know there are a lot of costs in between. I am not trying to suggest there are not. I am suggesting that those costs in between ate up all of that spread. I am not suggesting that you got it.

But you did use that difference to pay everything except the farmer, did you not?

Mr. MITCHELL. No, sir.

The CHAIRMAN. You did not? Where did the money go then?

Mr. MITCHELL. We buy carcass beef, and we were going back now to May of 1973. We paid 69.9 cents a pound. In September of this year, we paid 70.2 cents. Our retail price was $1.004, and our retail price was 96.4 cents.

But we did not increase, the figures that we submitted, we did not increase our rate of gross profit. We paid the labor, we paid the rent, we paid all those things through increased sales. Our sales volume is running over 20 percent of last year.

In our business at this time, you have a great deal of leverage because a lot of your expenses are fixed. Rent is fixed. If we get 20 percent more business, our rent percentage goes down. Our insurance is fixed; our taxes are fixed. Even part of labor is fixed because we only have one manager per store. We only wash our windows once a week. We mop the store twice a day.

So this is where the leverage is, not in an increase in gross profit. In the Safeway company, the rate of gross profit, the spread between cost and sell, has gone down every year for the last 10 years. I really do not know what the live market is, but if you look at the live market, you can divide that by six and get pretty close to the wholesale market.

The CHAIRMAN. Mr. Mitchell, I do not want to get into the position of what so many people do, but, each of you, your defense obviously is, well, we did not make anything. I have a question of what you made—the increase that you had from $1.36, first quarter, 1972, to $1.64, second quarter, 1974 your profit. I was not trying to get into that. I am not trying to embarrass anybody. I am not trying to make you out to be a bunch of rascals in the least.

I am not suggesting that, but I think that when you keep trying to avoid admitting that there is a big spread between the producer and the consumer, when you keep trying to cover up the existence of that, I become suspicious.

Mr. MITCHELL. I am not trying to cover it up. There is a big spread, but we did not get it.

The CHAIRMAN. All right. It must be the packers; it must be the feedlot men. You say I do not know which it was. You have heard the packers this morning. They said the same thing. We have a small margin here.

The feedlot men said they went broke feeding those cattle. His record in the bankrupt court indicates that he did.

It seems to me that you folks would not hurt your own case by being frank about it. You are probably in no better position—you are in the best position of anybody, but you have no responsibility beyond the commission house that sold you that meat or packing house or whoever you bought it form.

But as citizens here you have to take some responsibility of helping us understand that this mess which you are at one end—you are at one end and that producer is at the other end. There has been a drop of, let us say, 25 or 30 percent on the producing end. Your end has remained almost static. Your prices—sure, they may have dropped a few cents, but basically, they are static, and basically the producers are down a fourth to a third.

Well, I am just trying to determine why that is, and I think clearly part of the reason is that you have been forced to pay more. I am not suggesting you did anything wrong in paying these wages. I know the working-man had to have an increase. I know his family had to buy groceries, whether at your place or at the competitors. I know he has to buy them somewhere, and I know he has to have an increase, and he is just as much as entitled to it as the farmer is.

But why you are reluctant to admit that this money has gone to pay these increases? That is what I cannot understand.

Mr. CAIRNS. I have heard the testimony of the cattlemen, and I believe what they say. I believe they are getting substantially less.

But the thing that bothers me is that I can look at the paying price for steers this year, and I could say to you, just looking at these, I can not see a significant drop in the cost of these 4 months out of 11. In January, February, September, and October of this year, we paid more for a steer than we did last year. I do not know the answer.

I am not ducking the issue.

The CHAIRMAN. I think that is fair.

Mr. SYKES. We are not ducking the issue at Giant either. The record shows our profit per pound is 5 cents less than it was for last year's fiscal. That is a very substantial drop.

The CHAIRMAN. I know that. The reason your profits are less is not because the prices are going up. Your profits are less because you paid a lot of inflationary expenses.

Mr. SYKES. Mr. Chairman, in arriving at the numbers we have just quoted, we have not taken into consideration any expenses. This is purely a result of matching costs and retails.

The CHAIRMAN. That cost includes 12½ percent increase?

Mr. SYKES. I do not.

The CHAIRMAN. Yours does not. That was the reason you were able to lower your price and the other fellows were not.

Mr. SYKES. It means that we have a loss on our beef, and I think if your economists will analyze our figures they will come to the same conclusion.

Beef is a loser at Giant.

The CHAIRMAN. You are the one who shows the greatest reduction in price, too.

Mr. SYKES. That is correct.

The CHAIRMAN. You were not able to meet those increased costs. These people could meet them. You met them out of your reserves, of course, but you were not able to make them out of what you got from the product.

Mr. SYKES. I do not want to go on, Mr. Chairman. You have been very generous in allowing me this time, but I think that it has been so clear that if we are going to make the profit system work—and I want to see it work, and I think most of you do—that we have to give it a chance to work. I am not saying it is your fault, but you must help up make this work.

This is, if you know, another way whereby the profit system will work other than as costs go up, and the price of raw material goes down, you are giving something less to the final consumer in a way to increase the volume. I do not know what it is. I wish you would put it in the record, just as how you expect this profit system to work, I don't know, unless abundant supplies are going to mean a savings to the consumer.

Mr. FINDLEY. Mr. Chairman, I have several questions relating to this.

The CHAIRMAN. I want to thank the chairman.

Mr. VIGORITO. Mr. Findley, you have the floor.

Mr. FINDLEY. Related to the line of questions that the chairman posed, my information is that steer beef is today down 20 percent from late August, but the retail price of beef has not decreased substantially. Are these fair statements.

Mr. BRAUNSCHWEIG. Are you referring to live steer costs?

Mr. FINDLEY. I am referring to choice steer beef Midwest wholesale price on August 27, for 700 to 800 pound animals, yield grade 3, $75.50.

This has dropped approximately $15, or approximately 20 percent. My question is, why have not retail meat prices reflected the lower carcass price during this 3-month period? I know that costs are up substantially. But I am sure your costs are not increasing at the rate of 20 percent every 3 months.

Mr. BRAUNSCHWEIG. My retails have followed the cost declines. Our average retails in seven of the last 10 operating periods are down.

Mr. FINDLEY. How does your retail price level today compare with 3 months ago?

Mr. BRAUNSCHWEIG. Our 10th-period average retail on carcass beef was $1.099. Now, in the seventh period which is roughly July—or eighth period, that is 3 months—is $1.119.

Mr. FINDLEY. That is your retail price of beef?

Mr. BRAUNSCHWEIG. Our average retail on carcass beef, yes sir.

Mr. FINDLEY. That confirms my point because it is my understanding that choice steer beef is today selling for about 20-percent less than it was 3 months ago, and yet the retail price seems to hold even. Do I misunderstand?

Mr. BRAUNSCHWEIG. I find it difficult to relate to your figure on what a carcass costs right now. I am working with 10-period figures which are the October period figures. I do not have figures beyond that.

Mr. FINDLEY. Let me shift to another point. I will ask you generally, what are your pricing practices on the meat counters when beef prices go down, and you decide that beef prices must be priced down? Do you price down that meat counter inventory, or do you sell out the current meat case before you price down?

Mr. CAIRNS. Normally, there is some lag time, only because we prepare our advertising 10 days ahead of time. We commit ourselves for the product. There may be that much of a lag before the new, lower price can be reflected at the retail.

Mr. FINDLEY. My question is, is there a comparable lag in pricing up?

Mr. CAIRNS. Yes. I would have to say that occurs because beef is such an important item to us. It represents approximately 10 percent of our total business. We are so sensitive to it that I think we are very cautious about being the first to advance these retails.

Frequently, when the beef cost moves up we do not move on our retail. We do not want to be the first ones to advance our retail. We carefully check our competitors before we move, and there can be a lag of 1 week, 2 weeks, or even longer before we move.

Mr. FINDLEY. Citing the experience of my wife shopping in local supermarkets in the Washington area, repeatedly in the last few years—and this applies to general groceries as well as meat—she will find items that have a new price sticker, and invariably they reflect a higher price than the lower one.

It would be comforting if just once in a while she would run across an item on the meat case or elsewhere that reflected a down-pricing of the existing inventory reflecting lower beef pricing—and frankly, I have never experienced it, nor has she.

Mr. CAIRNS. I would agree. Repricing occurs primarily on grocery items rather than meat items. We do not remark over the old tags so that there would be no way that you would see that the price went down unless you remembered.

Mr. FINDLEY. If you do remark the old tags, what do you do?

Mr. CAIRNS. We rewrap the product.

Mr. FINDLEY. I believe that Giant Food representatives said your meat department is operating at a net loss.

Am I correct?

Mr. SYKES. That is correct.

Mr. FINDLEY. Is that the experience of the other chains represented here?

Let me rephrase it. What is the net profit of your meat departments, say for the last 2 years.

Mr. BRAUNSCHWEIG. We do not figure the net profit on our meat department.

Mr. CAIRNS. We do not either. In my testimony, though, I indicated that, based on a careful analysis of all expenses, we reasoned at a point that it looks like we are losing money on our meat operation.

Mr. FINDLEY. How about Safeway?

Mr. MITCHELL. We do not calculate meat department net profits, but we have given you the gross profit in the meat departments and gross profit in all other departments. We know what our total expenses are in the store, and I think our reasons are essentially the same as theirs.

We are not allocating expenses to the meat department. For example, you could allocate rent, I suppose, if you measured the store, and that would go to the meat department. Bad check losses, you would probably prorate on sales. You would have any number of bases for taking all the expenses and each one may have a different basis for allocation.

We have not done that, but I took a shot at it this morning and I would come out and say this. This is the range of items. If we allocate individual expense items, the meat department would net out something around 1.5 or 1.6 percent profit, compared to 1.4 for the total company.

If we prorated on sales, the meat department would net out .4 of a percent. And if we took actual labor and prorated the balance on sales, it would net out 1.4 percent, which is for the total store which substantiates what some of these gentlemen have said. It looks about the same as the total store, as nearly as you can figure.

We have never thought it was worthwhile or to our benefit to try to bookkeep these various departments in the store between grocery, produce and meat. And certainly we do not get a net profit on beef. We do not know how much beef we sell.

Mr. FINDLEY. Mr. Chairman, I have two other general questions which I hope you will permit me to raise. One has to do with the level of competition in meat retailing in the United States, what is the trend?

It is my impression in the suburban neighborhood in which we live that there is less competition for the purchaser of meat today than there was 2 years ago. There are fewer points at which purchases can be made in our immediate neighborhood.

I would like to have information to the contrary, that this is not typical in the United States. Can anyone, any of you, tell me what the trend is as to the number of retail points at which a person can make purchases?

Mr. BRAUNSCHWEIG. I do not think that is a trend in the area that we operate. I do not see any lessening of competition. I see expanding list numbers.

Mr. Findley. I have confidence in the market system, providing a high level of competition exists, and I would like to be reassured that a high level of competition does exist today in food retailing.

Mr. Cairns. We operate in 33 States. We just asked each of our operating divisions to give us a list of the new stores under construction by competitors and it is a very, very significant list in all the areas in which we operate.

Mr. Findley. The A. & P. witness, I believe, stated that the purchase of boxed beef means the saving of labor and shipment costs and better sanitary conditions. Citing that as evidence of increased productivity, output for manhour invested—are you able to introduce boxed beef in all of your stores throughout the country?

I think that was A. & P.

Mr. Cairns. Yes, you are correct. We have boxed beef. Let me phrase it this way. Sixty to 70 percent of our total beef presently is being shipped on a boxed beef basis.

Mr. Findley. Why not 100 percent?

Mr. Cairns. We are working in that direction, although, as you mentioned earlier this morning in questioning the packers, there are some areas where we have some union restrictions regarding the use of boxed beef.

Mr. Findley. You should be in a unique position to tell this committee, what that means to the consumer in cents per pound.

Mr. Cairns. I wish I could, Mr. Findley, but we frankly have not done the accounting necessary. We have not followed all of the advantages through to the consumer to be able to put a dollar and cents per pound tag on it.

Mr. Findley. Is the consumer price advantage substantial?

Mr. Cairns. We believe that it gives us a better product at a better cost considering all expenses of handling. I have no way of saying to you that it gives us a product at store level, a penny a pound less or 2 cents a pound less.

We really have no figures to support that.

Mr. Findley. The other subject, Mr. Chairman, that I want to mention is a rather unpleasant one, and that is the possibility that the consumers may indirectly be paying a substantial amount to cover the cost of payoffs, and I cite the New York trial of Currier Holdman, who was named and convicted, and the firm that he represents, the Iowa Beef Processors, Inc., fined some $7,000, charged with conspiring to pay off labor officials and supermarket buyers to get boxed beef into a certain area.

Are you gentlemen aware of any problem in your merchandising activity represented by organized crime or the practice I just alluded to? And if so, what are you doing to counteract that problem?

Mr. Sykes. We did not have any awareness of that in our area.

Mr. Findley. Do you have an investigatory system to determine whether or not payoffs may be occurring?

Mr. Sykes. In our own company?

Mr. Findley. That is what I mean.

Mr. Sykes. Yes.

Mr. FINDLEY. Would any of the rest of you gentlemen care to comment?

Mr. BRAUNSCHWEIG. We are not aware of any, and we do have an investigatory system in our company. We do not operate in New York.

Mr. FINDLEY. In this one case, the payoff was estimated to come to $1½ million. So that undoubtedly was passed on to consumers, and it was quite a cost of doing business.

One final question, and I would appreciate it if each of you gentlemen would state approximately how many stockholders there are in your firm. Identify the largest single stockholder, and state whether or not that stockholder, to your knowledge, has other substantial interests in food retailing.

Mr. MITCHELL. At Safeway, we have 70,000 stockholders, and no stockholder has as much as 10 percent. The biggest owner of stock is the profit-sharing plan, the company profit-sharing plan, the company pension plan; and I do not know of anyone who has any amounts over 2 or 3 percent.

Mr. BRAUNSCHWEIG. We have 46,646 stockholders. The largest stockholder is American Financial. They own about a million shares.

Mr. FINDLEY. As far as you know, they have no other food interests?

Mr. BRAUNSCHWEIG. No.

Mr. CAIRNS. We have over 24 million shares outstanding. We have approximately 50,000 shareholders. The largest shareholders would be several members or descendants of the original Hartfords, who founded the company, and our own pension plan. Excuse me; that should be thrift plan rather than pension plan. None of these people have an interest in any other food operation, to the best of my knowledge.

With regard to your prior point, we operate in the New York area, and we do have boxed beef in all of our stores, and we were not involved—in fact, we were not mentioned at any time in the indictments that pertained to the subject that you raised just a minute ago. We do have boxed beef for our customers there. We have had it now for a period of several years.

Excuse me. One point I missed on shareholders; the Hartford Foundation, a charitable foundation, is still the single largest shareholder in A. & P. They own approximately 32 to 33 percent of the total shares outstanding. Behind them would come several of the descendants of the original Hartford family, and then our own thrift plan.

Mr. FINDLEY. Do any of those, to your knowledge, have substantial interest in other food-retailing organizations?

Mr. CAIRNS. No, they do not.

Mr. SYKES. Mr. Congressman, we have approximately 3.3 million shares outstanding. We have roughly 3,500 stockholders. The two founding families each own about 20 percent of the company, and to the best of my knowledge, they have no interest in any other retail.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. VIGORITO. Mr. Denholm?

Mr. DENHOLM. Thank you, Mr. Chairman.

I generally conclude from the statements of all of you that you believe that the statistical data given us, to this committee, by the Department of Agriculture, is incorrect.

Mr. Mitchell, do you wish to comment?

Mr. MITCHELL. I do not know on exactly what basis it is prepared. It does not apply to Safeway.

Mr. DENHOLM. Assuming that is true, can any of you suggest where we can obtain the truth?

Mr. SYKES. Mr. Congressman, if I am not mistaken, the National Association of Food Chains—Mr. Adamy is here; I think he has a study on prices trying to reconcile the figures of USDA with the industry.

Mr. DENHOLM. Do all of you have membership in that association?

Mr. CAIRNS. We do.

Mr. BRAUNSCHWEIG. Yes.

Mr. DENHOLM. In a court of law, of course, we may refer to your statements as self-serving in your own interest. I presume, Mr. Adamy would speak for you in the same way, would he not?

Mr. SYKES. I am certain he will speak for himself.

Mr. DENHOLM. And is he speaking for himself, the public, or you?

Mr. SYKES. I think he has a study under way to reconcile industry figures with USDA figures.

Mr. DENHOLM. Do any of you know whether there is an alternative source where we can obtain generic data for determining the facts in the retail meat industry?

Mr. BRAUNSCHWEIG. I am not aware of an alternative source. In the last year, year and a half, the people in our company have indicated this to the USDA; that there is, in our opinion, a major inaccuracy in their methodology. We identified what we thought it was. Certainly, this should be corrected. How it can be corrected, I really do not know. I think our input is important. I think we should be listened to in this connection.

Mr. DENHOLM. I held a national news conference on this issue on the 17th of May 1974, and we proceeded to hearings very shortly thereafter. At that time, I was concerned about the same issues that Chairman Poage has discussed today. Since that time the farm retail price level spreads have continued. In spite of the fact, we have had several hours and days of hearings on this matter, we find everybody is in a crunch, including the retailers, wholesalers, and the producers. And we are now in a market situation where the consumers can scarcely pay more, and the producers cannot remain in the business of production for less. We are in the disadvantageous position of having problems of marketing before us. We seek your advice and counsel as to what to do under these circumstances? Can you people continue in business if the producer is out of business?

Mr. BRAUNSCHWEIG. We cannot.

Mr. DENHOLM. What do you say to that question?

Mr. BRAUNSCHWEIG. We cannot.

Mr. MITCHELL. Mr. Denholm, it seems to me that when we look at the profile of the retailer, it is not the profile of the monopolist. It is not a profile of an oligopolist. It is a guy working for pennies. I do not know about the other segments of the business, but if you take the retailer—as we said in the statement, if you gave back all the profits of all the grocers, you really do not have anything.

Mr. DENHOLM. I do not happen to believe—and I think the members of the committee agree—that it is not in the national interest to permit the source of supply to become extinct. I do not believe that is in your interest, and certainly that is not in the interests of the consumers or in the interests of the producers. And yet, the economic situation does not correct itself. You know the outside forces that have precipitated the current situation of the market, including the freeze of last year. I regret that Dr. Cox is not here, because I understand he was an adviser to the Cost-of-Living Counsel that imposed the price freeze. The freeze went on, followed by the interruption in truck deliveries, et cetera, in early 1974.

All factors influenced costs and profits. A decrease ultimately occurred in the profits of the producers. Now, producers are in a situation where they cannot continue to provide the source of supply essential for the people of this country and the hungry people around the world. We are told that there is now an oversupply of cattle. When that occurs, as Chairman Poage has so ably demonstrated—the wholesale-retail prices should reflect a downward trend. However, that has not occurred.

We are here to find how we can act in the public interest. It is not in the interest of our country to permit the present circumstances to continue. It will benefit you in the long run, it will not help the people who have to buy from you, and it is of no benefit to the producers in the heartland of America. If you do not have the answer, I am asking of whom can we seek those answers?

Mr. MITCHELL. I think we have the answers, Mr. Congressman, to the extent that we can exert our efforts to move these surplus supplies. We are going to have to get rid of beef; we have been promoting beef. I have with me promotional documents dating back to February, when the Texas feeders came to us and said, help us with our surpluses. We did go out and help them. We met with the American Cattle Association, we went out and helped them. We did this as a regular thing. A month ago, we were helping the turkey growers with the surpluses they had. We have helped the cherry growers, peach growers, and the apple growers.

This is about the only thing the retailer can do, is increase his volume of these products, put them on the counter at attractive prices, and I do not wholly subscribe to Congressman Poage's statement that we have not lowered our prices, because I think we have.

Mr. DENHOLM. Do you subscribe to the principle that as price decreases—consumption increases?

Mr. MITCHELL. In our beef business, it is up.

Mr. DENHOLM. Your price to retailers has not changed substantially. The increase in sales has been accomplished through promotion and merchandising techniques and not as a result of a normal price change caused by the competitive forces in the market as a result of supply and demand.

Mr. MITCHELL. We have. I brought this because I thought this was a particularly interesting thing. I would like you to read the letter. This was a window banner.

Mr. DENHOLM. That costs money too, does it not?

Mr. MITCHELL. That costs money, too. But the place where we use that—in the letter, he says, "This has been most successful, using the window banners. We will run approximately 1,000 beef per week. For next week, we project 1,490 head." That is a 49 percent increase that we got out of that promotion, and that is the type of thing that the retailer can do which we have done for the apple growers, for the peach growers, and the cattlemen.

Mr. DENHOLM. I commend you for increased sales but any kind of promotion that you can do becomes an add-on cost to the consumer. Do you agree?

Mr. MITCHELL. Yes.

Mr. DENHOLM. If you can get the consumer to eat more at higher prices, a transfer of values should be reflected to the level of prices received by farmers. The fact is the consumer is paying all he can at a time when prices have been decreasing to the producer.

Do you have a window ad that explains that strange economic phenomenon?

Mr. MITCHELL. The proof of the pudding is in our increased sales. We are moving more products.

Mr. DENHOLM. You have referred to that several times. I believe that accounting data easily escapes analysis. Mr. Mitchell, your costs and your retail sales constitute a dollar transaction. When you relate profit to percent of sales and increase sales by 20 percent the dollar profit margins have substantially increased, have they not?

Mr. MITCHELL. The figures I gave you, the 21 percent increase, was beef tonnage.

Mr. DENHOLM. You buy it by the ton and you sell it by the pound at an increased price. Your dollars in the bank have substantially increased, have they not?

Mr. MITCHELL. As our business goes up, yes.

Mr. DENHOLM. All of the data that we have access to is based on averages. That does not indicate the difference between the price of cattle in Omaha, Sioux City, or Sioux Falls, when the market is up $3 one day and down $4 the next day. Somebody has got to get a windfall there.

Do any of you gentlemen really care what is happening in the market? I want to ask you about warehousing. Do you warehouse beef purchased?

Mr. CAIRNS. We do.

Mr. SYKES. We do.

Mr. MITCHELL. In most areas.

Mr. DENHOLM. When I testified before this committee in mid-summer, I submitted proof that cold storage warehousing beef was up 33 percent, pork 43 percent, and poultry 87 percent across this country. Those statistics were obtained from the American Meat Institute and the U.S. Department of Agriculture. Now, when that occurs, in my judgment, the kill demand is reduced and the price to producers is lower while the meat held off the market tends to cause the price to consumers to remain at high levels and the farmer receives less and less at the market.

Can you explain that? Is that the situation?

Mr. MITCHELL. All our beef in warehouses is fresh. It comes on Monday. The warehouse is cleaned up over the weekend.

Mr. DENHOLM. Who in the industry seeks to warehouse the frozen beef, and who buys frozen meat?

Mr. BRAUNSCHWEIG. That is manufacturing-type beef.

Mr. DENHOLM. Do you sell manufacturing-type beef?

Mr. BRAUNSCHWEIG. We buy fresh, boneless beef for our ground meat, but we do not store any.

Mr. SYKES. We do not.

Mr. CAIRNS. We do not, either.

Mr. DENHOLM. Who is in control of all the cold-storage warehousing of meat across America?

Mr. SYKES. The manufacturer.

Mr. DENHOLM. Who is the manufactuer?

Mr. PEARCE. People who manfacture sausage, bologna, and such items as that—lunch meat.

Mr. DENHOLM. Why would they have an 87 percent increase in poultry in cold-storage warehousing during the first 6 months of 1974?

Mr. BRAUNSCHWEIG. Those are mostly turkeys, are they not?

Mr. DENHOLM. Yes. Do they make sausage or ham from turkeys in cold storage?

Mr. MITCHELL. The turkey business—they build up inventories through the season for Thanksgiving to Christmas to Easter. They slaughter turkeys, as I understand it, so many a week. They have to build inventories for the big demand.

Mr. DENHOLM. Is it your testimony that retailers do not have a lot of meat in cold-storage warehousing?

Mr. BRAUNSCHWEIG. No, we do not.

Mr. DENHOLM. Are you suggesting that the wholesalers do have large supplies in cold-storage warehousing?

Mr. BRAUNSCHWEIG. I would expect that the turkeys are being held in the name of the processor.

Mr. DENHOLM. Are the processors really packers?

Mr. BRAUNSCHWEIG. Yes, sir.

Mr. DENHOLM. Why would they be carrying large inventories, and paying interest on substantially large investments in storage on beef, pork, and poultry?

Mr. BRAUNSCHWEIG. I think Mr. Mitchell identified it. It is a seasonal business that begins slaughtering in June, and accelerated as the holidays come closer. They build up substantial inventories that are going to move at Thanksgiving and Christmas. There is a greater number of turkeys in the freezer than we are going to be able to eat up by Thanksgiving and Christmas. There will be a carryover.

Mr. DENHOLM. What impact will that have on retail prices of beef? Do you anticipate there is going to be a downward trend in retail prices of beef?

Mr. BRAUNSCHWEIG. In the short term?

Mr. DENHOLM. Yes, during the holidays.

Mr. BRAUNSCHWEIG. The market is not very strong now. It is $60, $61. I do not really expect it is going to improve much.

Mr. DENHOLM. You are talking about carcass costs to retailers, aren't you?

Mr. Braunschweig. Yes, sir.

Mr. Denholm. If that price decreases, the producer will experience a lower price level in the market.

Mr. Braunschweig. Less than they are currently taking, Mr. Denholm; I could have answered this to Mr. Poage's question. I find it difficult to talk about live cost. We deal with carcass meat. Obviously, as Mr. Poage pointed out, there is a reaction, there has to be a reaction.

Mr. Denholm. There is necessarily a transfer value throughout the whole market system and that is what Mr. Poage and I are talking about with you today. When there is an oversupply of product in the market and in the warehouse, and the market pipelines are filled—why do not consumer prices come down so consumption will go up?

Mr. Braunschweig. Our average retails have gone down, and I think I pointed that out in our testimony. Our average retails are down substantially, beginning with the first period of this year, which is roughly May, were off 2.3 cents a pound, 9.8 cents a pound, 11.2, 15.9, 13, 9.3.

Mr. Denholm. Who are you with, sir?

Mr. Braunschweig. Kroger.

Mr. Denholm. What about the retail marketing by the Giant Food Stores chain here at Washington? Is it true that you sell to some stores cheaper than others?

Mr. Sykes. No.

Mr. Denholm. That is not true?

Mr. Sykes. No, that is not true.

Mr. Denholm. How do you people buy and from whom?

Mr. Sykes. Mr. Pearce would be happy to answer that question in as much detail as you desire.

Mr. Pearce. We buy from about 12 packers throughout the country, and 95 percent of our purchases are carcass meat, purchased each Wednesday for the following week's delivery.

Mr. Denholm. By telephone?

Mr. Pearce. Yes, to the packer direct.

Mr. Denholm. If you are to buy for next week's market, how soon in advance do you order?

Mr. Pearce. I buy each Wednesday for the following week's delivery.

Mr. Denholm. Is that true as to the rest of you?

Mr. Brunschweig. We buy every day of the week. We buy from approximately 40 packers that are located along the river, the Missouri River, the St. Joe, Sioux City, Omaha. We buy out of Kansas and the Texas panhandle. We buy every day of the week from about 40 different people.

Mr. Denholm. How do you know what to pay at a given time if you do not know what the live-weight market prices are on a day-to-day or week-to-week basis?

Mr. Mitchell. In Safeway Co., we buy once a week, and we refer to it as offering acceptance. We have a standard group of suppliers. Each division buys its own beef. In San Francisco, they have 15 to 20 packers who quote a figure to us. We have been doing business with them a long time. They will say, 200 carcasses at 55 cents. The next guy says, 500 carcasses at 64½ cents, and we will get those in on

Wednesday. On Thursday or Friday, we notify them, we will take 150 from you, 200 from you, 300 from you, and so on. So they make an offer to us. We do not haggle. They set the price.

Mr. DENHOLM. Do they set the price?

Mr. MITCHELL. They set the price. We try to buy locally. San Francisco buys locally. They may have to fill in. If they cannot supply they may fill in from Denver. Los Angeles buys locally; 95 percent of the beef sold in Los Angeles is local beef. I say, you may have to reach out if they cannot fill your orders.

Mr. DENHOLM. Is there any variation in price quotations, regardless of the region or area?

Mr. MITCHELL. Yes, there is some variation, and this comes about largely by freight differences. For instance, in Washington, D.C. here, for next week, this week we are in—pardon me, last week—for delivery. This week we paid $64.50. In Omaha, we paid $60.47; Kansas City, $59.87; Denver, $59.58; Dallas, $61.86. These people are acting independently of one another.

Mr. DENHOLM. Are the price quotations about the same other than the allowance for variations for distance and freight charges? Is that your testimony?

Mr. MITCHELL. I suppose it would be. They are pretty close to the same.

Mr. DENHOLM. Do you know why that is, sir?

Mr. MITCHELL. The packers are all competitive among one or another.

Mr. DENHOLM. Are they competitive?

Mr. MITCHELL. I have no evidence to the contrary. They are quoting us a price. If we have 15 packers quoting us, they are pretty level, as I said. So many head—we have 400 head available, 300 head, 700 head, and we try to deal somewhat with all of them, because they want rather purchases and we want rather suppliers.

Mr. DENHOLM. Do you buy from custom killers?

Mr. MITCHELL. Killing our animals?

Mr. DENHOLM. Yes, other than the processing, the slaughtering, and delivering to you in the ordinary course of business?

Mr. MITCHELL. I do not understand your question, but we do not own any cattle. If we owned the cattle, they would be custom killed—we buy from packers. We do not know where they get their animals.

Mr. DENHOLM. Do any of the rest of you buy direct and seek the service of custom killers?

Mr. CAIRNS. We did during the price freeze, when cattle was not available. We did some custom slaughtering then, but that was the only time, Mr. Denholm.

Mr. DENHOLM. How did that acquisition cost compare with the competitive price at the market in the ordinary course of business?

Mr. CAIRNS. There really was not a competitive price. Packers were not offering any beef to us, because of the freeze. They could not kill and sell to us at a profit, so we could not get beef. In order to have beef in our stores, we had the product custom-slaughtered.

Mr. DENHOLM. Are you familiar with yellow sheets?

Mr. CAIRNS. I do not work with them day to day, but I know what they are.

Mr. DENHOLM. Is there any substantial change in the supplier's price to you on the yellow sheets notwithstanding the cost of freight and transportation?

Mr. MITCHELL. We do not buy off the yellow sheets.

Mr. CAIRNS. We do not buy off yellow sheets, either.

Mr. BRAUNSCHWEIG. We are buying some cattle off the yellow sheets.

Mr. DENHOLM. I read them occasionally and I have not observed any great differential in price quotations on wholesale offering the sources of supply. Is there some explanation for that, other than the freight charges and transportation?

Mr. BRAUNSCHWEIG. It is the market at the close of the business day on the Missouri River.

Mr. DENHOLM. Mr. Chairman. I yield that others may inquire of the witnesses.

Mr. VIGRITO. Thank you. Congressman Wampler.

Mr. WAMPLER. I would like to direct this question to any of you gentlemen who would like to respond to it.

What was the impact of the boycott on beef sales today? Was it an effective boycott?

Mr. BRAUNSCHWEIG. Answering for our company it had a severe impact. It disrupted the normal marketing of beef and was followed by another severe impact that involved the custom kill period, which again switched customers away from beef to substitute products. I do not think a lot of those customers are back yet.

Mr. SYKES. You are talking about the 1966 boycott?

Mr. WAMPLER. Last year or the year before, the consumer boycott—I think it started in New York and extended across the country.

Mr. SYKES. Our experience was similar.

Mr. CAIRNS. Ours was too.

Mr. WAMPLER. It did have an effect on the local supply and demand.

Mr. MITCHELL. A temporary one. That was April 1st but then we had the price freeze in September which is really a disaster for everyone.

Mr. WAMPLER. There are many on our committee who felt that was an ill-advised action of government to try to control and disrupt the orderly working of supply and demand.

I do not feel that we have recovered from it yet.

Mr. MITCHELL. Then we have the truckers strike in February of 1974.

Mr. WAMPLER. What do you gentlemen think it would take to get demand for beef back to a normal level? I realize this is a complicated question. What do you think in general?

Mr. SYKES. We have indicated in our testimony, Mr. Congressman. We provided beef 20 weeks out of 36 this year. The result of that promotion shows in our table 1, page 7 of our testimony. Our profits are down from promoting but our tonnage is up.

I think each member sitting at the table have indicated their tonnages as up. We have done our part in responding to the cattleman's cry to push beef.

Mr. WAMPLER. Do you intend to continue to promote beef?

Mr. SYKES. Yes.

Mr. Braunschweig. It is our intention.

Mr. Cairns. Ours too.

Mr. Wampler. What do you forecast in the area of beef supplies and prices in the next 6 months? Can you foresee what is going to happen?

Mr. Sykes. I would have to pass that up.

Mr. Braunschweig. I have not been very effective in my predictions this last year. I am probably not alone. I see an improvement, although minor, of the price in which cattle move through the system. Hopefully, the demand will come back. I believe in some instances it has come back now.

I am also aware that the cattle population numbers are substantial and the calf crop, again, is at an alltime high. That will throw more animals in the system. Whether the customer is going to buy beef in substantial quantities, enough to eat ourself out of the situation, I cannot say.

Mr. Wampler. As I recall the testimony, A. & P., in 1972, showed a net loss.

Mr. Cairns. That is correct.

Mr. Wampler. Was that a result of WEO? Perhaps I should not ask that question. In any event, most of you showed profits in the last 3 years. The packers testified that they were in a profit position, but there would hardly be a single cattle producer who would come in and testify that he is making a profit. In fact, he probably could not testify that he is breaking even. He would like to testify that he is at least breaking even. I think most of them are suffering a substantial financial loss.

I do not think profit is an ugly word. It makes our system function. But it would seem to me that listening to the testimony today, very good testimony and helpful to this committee, that inflationary pressures and costs that you gentlemen have had to bear have been passed on to the consumer and basically at the expense of the producer.

This is what it looks to me like, that you pass this through dollar for dollar and show a profit. The cattle producer is showing a loss.

Is that a fair statement?

Mr. Sykes. That is not a fair statement. Our sales are up this year over last year partly because of inflation and partly because of promotion. Our margins are up slightly over last year. We think we are much more efficient in the use of our labor this year than we were last year. We think that some of our profit we may attribute to inventory profit and we are looking into that presently. We are not sure to the extent of that.

We would not agree with your comment.

Mr. Wampler. If you were a cattle producer and you heard the testimony here today, what would you do as it relates to the future? Would you be encouraged to stay in the business or get out?

Mr. Sykes. We have enough trouble in our own industry, Mr. Congressman, to make a profit here. I am not in the position to advise the cattlemen.

Mr. Wampler. It is rather apparent that the cattle producer is taking the brunt of this. He is not showing a profit and you gentlemen are.

Mr. SYKES. We are not showing a profit on beef, as we have demonstrated in our testimony.

Mr. WAMPLER. It is clear that he is taking a substantial loss, is that not correct?

Mr. SYKES. We are also, sir.

Mr. WAMPLER. Thank you.

Mr. VIGORITO. Mr. Bergland, do you have any questions?

Mr. BERGLAND. I have a couple. I appreciate you giving me some time at this hearing and I am very interested in this matter.

I have a few questions, Mr. Braunschweig. You alluded to a lower quality of beef that is being merchandised under the title of "thrifty, lean, and tender."

Is this meat cut from the animals that are being moved to market directly from grass and roughage do you know?

Mr. BRAUNSCHWEIG. They are typically middle- to low-grade good cattle. I do not believe they are directly off grass. They have probably been in the feedlot a short period of time.

Mr. BERGLAND. If I understand your testimony, you said this lower quality now constitutes about half your beef merchandising?

Mr. BRAUNSCHWEIG. In some areas, yes, sir.

Mr. BERGLAND. Is that ratio changing? Is it on the increase or decrease, can you tell?

Mr. BRAUNSCHWEIG. It is remaining constant, but we have only been in this program since about July. We are gaining experience every day. It seems to me the program is going to level off with about 50 percent of the volume in this leaner-type beef.

Mr. BERGLAND. I represent an area in Minnesota in which there are quite a few cattle fed and just recently returned from the heavy feeding area and talked with producers out there who informed me that there is no way that they can put $3.50 corn into 40 cent cattle. It just will not work, obviously.

So they are not stocking up the replacements of cattle and thus feedlot is down substantialy far below the records published by the Department of Agriculture. And those cattle feeders or those cow-calf operators out there are trying to find a way by which they can put roughage in those animals and feed them on the lowest possible cost or at the lowest possible cost and they will be moved to market at a very low quality. The marbling will not be there, the fat content will not be there.

I am wondering when that meat hits, if you have any idea what kind of consumer reaction there may be. We have been accustomed to these high quality beef.

I predict they will not be available in the general supplies to which we have been accustomed over the years.

Mr. BRAUNSCHWEIG. I think that is true. I have to say about this, about our program, we are mechanically tenderizing this meat, the fact being, and our actual tests show that by itself it is not tender. So we are using a knife-type device that has 518 blades in the head and cuts across the muscle fiber and thus tenderizes the meat. And through this device it is tender. Without the aid of this device it is not tender.

As far as I am concerned the tests I have been involved in, it eats reasonably well. It does not eat like a top choice animal and could not be expected to. It has one significant advantage. That is, if a customer is not looking for lean meat at the best value, and the best value to the customer now means every pound of meat she buys she expects she is going to eat and wants to eat. And this meat is lean.

We are satisfied with the program.

Mr. BERGLAND. With the cost of everything going up and up, every home has a budget that must be observed and obviously, food is one item in which the home budget manager had some discretion.

Do you see any change in the buying habits of the consumer in terms of the quality of meat or the substitutes that are offered in the place of meat? Do you see any reduction in the per capita consumption of beef?

Mr. BRAUNSCHWEIG. There was a major reduction in the year 1973. The early indications that I have had indicate that the per capita consumption of beef will be at about the level that it was in 1972, which I understand was 116 pounds per capita. There are substitutes available.

We introduced about 16 months ago a textured vegetable protein ground meat item, and, it was highly successful and still is successful and represents about 18 to 20 percent of our total ground meat volume.

Mr. BERGLAND. The so-called hamburger helper that my wife talks about from time to time?

Mr. BRAUNSCHWEIG. I guess you could call it that. No, not exactly the same thing. This is a textured vegetable protein that is mixed with fresh boneless beef and actually makes a ground beef product.

Mr. BERGLAND. Is this being universally produced in the meat industry across the country?

Mr. CAIRNS. We are not currently offering it. Some of our competitors are in many areas.

Mr. BERGLAND. That is all I have. Thank you, Mr. Chairman.

Mr. VIGORITO. Congressman Peyser.

Mr. PEYSER. Thank you, Mr. Chairman.

Gentlemen, if I understand the purpose of this hearing today it was really to try to determine if something could be done to bring prices in line to the consumer as to what the producer of the product—in this case, the cattle—was getting. And after listening to the testimony and listening to the answers to the questions, I gather, and if I am not gathering correctly, please tell me, that you are really saying that there is not a problem here, that the facts are that what has happened in the marketplace is just a fair treatment of the situation. Cattle are selling for so much. You buy them from the packers for so much and you sell them to the public for so much, and it is really following a reasonable pattern.

Are those the conclusions that you draw from your own feeling in this business?

Mr. SYKES. I would say that is correct.

Mr. PEYSER. Is that a unanimous conclusion, that basically what has happened is a reasonable evolution of the price and what you are charging is reasonable?

So basically, the only problem is not with you or any other people in the whole line here, but the problem that we have in the inflationary situation that we have in the country and people are not going to get food as cheaply as they used to get it, and they had better adjust to it. And that basically is that because if that is a fact, then basically, Mr. Chairman, our hearing has produced the result that everybody can go home. And we have looked at it, we have heard some good testimony and there really is not any problem.

Now, I am not at this point completely convinced of that personally. I am convinced something is happening in your industry and I am not in any way trying to pick on any one company or any one packer: I am sorry that the gentlemen from Armour and Wilson are not here at this time to share in some of the questioning, because I find, dealing with what they were saying this morning and dealing with their own companies, some amazing profit figures for Armour Co. in this last year.

For instance, Armour, in 1973, according to Standard and Poor's, showed 128 percent increase defined as net income after taxes of 128 percent over 1972, which also had been a good year for Armour. In the first 6 months of 1974, they are showing a 15 percent increase in profit over those previous excellent figures of 1973.

Now I also have listings here of major packing companies around the country. I have taken seven of them and rather than read each individual name, I just divided the total profits and I find they are averaging 103 percent increase in profits over a year ago.

Now I also heard the statement made that profit is not a nasty word. I do not think profit is a nasty word either, as long as it is not a windfall profit, as long as it is not a totally unreasonable profit that is taking advantage of the economy of the United States today. And I am prepared to say in a future hearing that we will have shortly that in my opinion the sugar industry that you are not connected with is directly taking advantage of that situation. But I do not know that your industry factually is. But I have a feeling that something is wrong and that we are not getting all the facts at this hearing.

The A. & P. figures, some of which I have, and what is very confusing to a layman in this business, is when you hear of a profit of only 1 percent or 9/10ths of a percent or something of this nature, it does not sound like much of anything. And yet, I noted, and this is the 1972–73 fiscal report, on A. & P., for instance, it showed an increase of 7 percent, which by itself is certainly not an excessive increase. Yet the dividend earnings in 1972–73 went from 59 cents to $2.06.

These are the figures that were provided for me. If they are inaccurate, I would certainly retract them. But they were given to me by the Library of Congress and they are not infallible either and someone could have looked at the wrong figures. But that shows a reasonable increase in dividend earnings in that period of time.

Once again, that is an increase, I guess, of 160 percent dividends or something like that in that approximate area. The national business profits in the first quarter of 1974 for business in general showed a 2 percent increase, which is very nominal. For the retail food industry, for the first quarter of 1974 showed a net profit of 61 percent in the retail food industry.

Now once again A. & P., and I regret having to use A. & P. at this time rather than anybody else, I believe showed a report in that quarter of a 331 percent increase.

Mr. CAIRNS. What period is that?

Mr. PEYSER. The first quarter of 1974.

Mr. CAIRNS. Mr. Peyser, during the year 1972 we lost $51 million. In 1973 we returned a profitability. We earned $12 million. Traditionally, for a 10-year period, from 1960 through 1970, our earnings year-in and year-out were in the neighborhood of $50-some million.

If we were to continue to earn at the rate of $12 million, our earnings last year, versus a significant loss in 1972, there is not any way that we could attract the capital that we need to provide the electronic check stands, the new stores and other means of increasing productivity.

Mr. PEYSER. May I ask a question? During the period that you mentioned lossing, I think it was $50 million——

Mr. CAIRNS. $51 million.

Mr. PEYSER. Did you pay a dividend that year?

Mr. CAIRNS. We paid dividends. We dropped dividends for two quarters and we paid dividends two quarters when we had a loss.

Mr. PEYSER. I do not want to get into the business practice involved, but when you have a loss of that major nature, in what cases do you continue paying a dividend?

Mr. CAIRNS. You would pay it, Mr. Peyser, if you believe that you were going to return to profitability and that it was a short term situation.

Mr. PEYSER. I see. What about the 331 percent increase? Is that a correct figure?

Mr. CAIRNS. I do not believe it was.

Mr. PEYSER. This is a figure I personally read in the Wall Street Journal on the basis of your report on the first quarter of 1974.

Mr. CAIRNS. Versus the first quarter of 1973.

Mr. PEYSER. That is correct.

Mr. CAIRNS. I do not have those figures with me.

Mr. PEYSER. I did read the article, so I have no hesitancy about quoting that directly. The Wall Street Journal could be wrong, but that was the statement that was there.

The point I am trying to get at is that I do not have the feeling that if we do not go any further than we have gone right now, that we have really accomplished anything today, unless we accept the premise that everything is right with the world and right with the food industry and there are no problems.

Mr. SYKES. If I may make a comment.

Mr. PEYSER. Please.

Mr. SYKES. We are glad to be a part of this group and to open our books, and we would like to say we have bared our souls as a retail chain. We have made open to this committee and to the Congress and to the entire world facts that have never been public before. We think if you get your analyst to work on our numbers, as well as Safeway, Kroger, and A. & P., I think he will arrive at a different conclusion, that it is not the chain who is causing the problem that you are alluding to.

We invite this committee to come to our office and audit our records. We have been audited before by the Cost of Living Council. As a matter of fact, they used us to be the pilot organization to develop other programs and testing margins under the Economic Stabilization Act.

We invite you again, but certainly the numbers we have come up with, A. & P., and Kroger, have all been indepth, and I think this is the first time this industry has presented this group, this Congress, with this indepth study.

Mr. PEYSER. I appreciate your statement and I am not questioning your statement. But I am saying that if your companies are showing, and from the figures we have gained here, of course, we do not gain what the real profits of your operations are, that if you, in effect, are operating on a marginal gain, whether you are gaining it in profit 6 or 7 or 8 or 9 or 10 percent, then I think you have no concern one way or another. You have given us everything involved.

On the other hand, I heard the packers sitting here this morning, telling us they were operating on marginal profits and I have the exact figures from those companies, and I do not see how anyone could call them marginal profits. This is what disturbs me.

You heard the same testimony I did. They said, "We are operating very thin. We have no room. Yet we show profits here which are fantastic." And Wilson Co. is bigger than anyone in the industry. Now they have merged with LTV, which is a conglomerate and trying to find out, once they are in there, what their profits really are would take a full-scale audit to see what is happening in the packing industry.

So, Mr. Chairman, I will not take any more time here. I just think that we have to go further. I think that we have really got to get technical, digging into audits and into finding out just what is happening, because I am not convinced that all is right in the food industry from the start to the finish.

Mr. VIGORITO. Are you participating in gimmicks, gifts and stamps, in order to lure customers into the store, bearing in mind that this adds to cost and the cost is passed on to the consumer?

Starting with Safeway.

Mr. MITCHELL. We have no stamps, no games, no gimmicks.

Mr. VIGORITO. You do not participate?

Mr. BRAUNSCHWEIG. We are still using stamps in some areas. We phased stamps out in quite a few at the moment. That is our situation as far as stamps is concerned. We are not using games or gimmicks.

Mr. CAIRNS. Mr. Chairman, we do not have stamps, games, or gimmicks. We are not offering any of the three.

Mr. VIGORITO. You are completely out of stamps? You used to have stamps, I think in western Pennsylvania where I am from.

Mr. CAIRNS. You are correct, but we dropped those sometime ago.

Mr. SYKES. Mr. Chairman, we have no stamps, no games, no gimmicks. We do have hard merchandising, aggressive merchandising.

Mr. VIGORITO. I wish to thank you gentlemen for appearing here today.

Mr. DENHOLM. Mr. Chairman, will you permit one or two further questions of the witnesses?

Mr. VIGORITO. If they are very brief.

Mr. DENHOLM. I am still bothered by your references to the margins of sales that is ultimately converted to dollars.

Net profit margins converted to dollars are bigger than what your testimony indicates in percent of profit on sales. When you increase sales 21 percent, that is a substantial increase in dollar profit, is it not?

Mr. MITCHELL. Yes, Mr. Denholm. I still keep coming back to what I said in my testimony, that the profits of all the chain stores put together, all the grocery stores, if you took all of our profit and gave it back to the consumer, to the customer, it amounts to about 1 cent per customer per day. At the end of the year, the figures I had was $3.27.

This is not the cause of inflation. All we are is a conduit. We are paying 60 cents a pound for sugar, selling it for 62 cents.

Mr. DENHOLM. There are 211 million or more consumers. A penny a day does represent substantial dollar values. Mr. Mitchell, those kind of statements are misleading and tend to avoid the issue.

Mr. MITCHELL. If we made no profit whatsoever, it would still have a 16-percent increase in food, whatever the figure is.

Mr. DENHOLM. Do you agree that the cost of living is the barometer of the rate of inflation in this country?

Mr. MITCHELL. I guess that is right.

Mr. DENHOLM. We cannot solve inflation in this country until we stop the "rip-off" in the food industry. Now, meat is one of the largest expense items the consumer has to pay for in the food market and all we seek of you gentlemen—is the truth.

Mr. MITCHELL. When you are talking to retailers, you are fishing for minnows.

Mr. DENHOLM. We are seeking but the best answers of the witnesses before us, sir.

Thank you, Mr. Chairman.

Mr. VIGORITO. Thank you.

Mr. FINDLEY. Mr. Chairman, I have to confess a conflict of interest. I have a majority interest in a weekly newspaper in Pittsfield, Ill. That community has a Kroger store. The Kroger store was advertising regularly in my newspaper, and I hope it keeps it up.

Mr. VIGORITO. I am not going to say that this concludes the hearings on this phase of meat pricing because I want a chance to go through the statements that have been submitted by all, from the producer down to the gentlemen here today, and what other future events occur. If necessary, we can always call for more hearings, if we want to digest what we have heard for the last few months and maybe issue a report or statement, and I am sure you will get a copy of it. And we will continue hearings on other phases of the food industry. I hope maybe the next one will be the high price of sugar, because they have taken a tremendous jump in the last few months.

Again, I would like to thank everyone for participating in these hearings, and the meeting stands adjourned for the day.

[Whereupon, at 4:30 p.m., the subcommittee adjourned to reconvene subject to the call of the Chair.]

[The following additional material was submitted:]

U.S. DEPARTMENT OF AGRICULTURE,
COMMODITY ECONOMICS DIVISION,
Washington, D.C., November 18, 1974.

Subject: Comparisons of data for the beef industry now and 18 months ago.
To: John Rainbolt, Associate Council to Committee on Agriculture, U.S. House of Representatives.

Price comparison from a live weight basis to selected retail cuts are shown in Table 1. Note that the composite retail prices are essentially the same while carcass and live prices have dropped. This means a widening of spreads.

A comparison of changes in Sirloin and Ground Beef prices indicate a slight higher price for sirloin and a lower price for ground beef. This reflects the fact that the number of fed cattle marketed has decreased which tends to hold Choice cattle and beef prices up. The large increase in non-fed cattle slaughtered has driven down these prices as indicated by the Utility Cow prices listed. As a major portion of ground beef and manufactured beef comes from these lower priced cattle, the drop in ground beef prices relative to Choice table cuts has occurred.

A decrease in farm price relative to detail price means the spreads have increased. Whether the costs to packers, retailers, and other firms have increased as much as the spreads indicates whether profits have increased. Several tables on packer and retailer profits have been included to give an indication of this. The first (table 2) one shows spreads and selected costs on an index basis for comparison. Tables 3, 4 and 5 indicate profits on a firm and group of firms basis.

In regard to profits of commission firms, stockyards, auctions, and other live marketing agencies, their margins have stayed the same to decreased. For example, auctions operate on a percentage basis and with a decrease in live prices their gross decreases. Thus, as labor and other costs have increased it would appear that marketing agency profits have decreased rather than increased.

Imports of beef have decreased in 1974 from 1973. Table 6 shows the imports by month of meat subject to U.S. import quota restrictions. Table 7 indicates the figures from all beef and veal. There is no breakout of boneless beef to table cuts of beef. Most of the meat imported, however, is boneless beef used in ground beef and manufacturing beef uses. A study in 1972 by the U.S. Tariff Commission indicated that of the beef and veal imported during 1969–70 92 percent was manufacturing beef and veal and 8 percent was table beef and veal.

In summary, beef spreads have increased during the last 18 months. Live prices have dropped relative to the retail price. Costs for the middle-man have also increased, but the USDA price spread series would indicate that they have not increased as much as the spread. USDA price spreads are differences between two points in the channel for Choice cattle and beef in carcass proportions and thus are not strictly packer and/or retailer margins. For instance, retailers may buy primals rather than carcasses, grades other than Choice, and sell in noncarcass proportions.

LAWRENCE A. DUEWER,
Agricultural Economist,
Meat Animals Program Area.

Attachments.

Table 1.--Beef price comparisons for:

Estimates Prices of	W/E Nov. 2, 1974	Oct. 1974	May 1973
Retail Composite	135.8	136.8	136.0
Sirloin, 1# Retail	1.75	1.77	1.73
Ground Beef 1# Retail	.89	.88	.94
Carcass Price	66.17	66.24	70.36
U.S. Live Price (Used in price spreads)	39.56	39.61	45.70

	Nov. 15, 1974	Oct. 1975	May 1974
Omaha 9-1,100# Choice Steers	36.50	39.75	46.05
Utility Cow Prices	18.25	19.68	34.26

Table / -- Beef and pork selected marketing costs, 1963-74

Year	Farm-retail price spreads: Beef: Farm carcass spread	Beef: Carcass retail spread	Pork: Farm wholesale spread	Pork: Wholesale retail spread	Hourly Earnings: Meat packing	Meat processing	Food retailing
	Index 1967 = 100						
1963	108	100	91	89	87	87	85
1964	111	100	92	87	90	90	89
1965	97	95	87	84	92	92	92
1966	97	103	94	103	95	95	96
1967	100	100	100	100	100	100	100
1968	100	101	103	100	106	106	107
1969	102	119	97	101	113	114	114
1970	106	131	115	123	123	120	121
1971	120	124	118	116	130	129	130
1972	117	146	104	115	138	140	139
1973	125	161	92	145	145	147	146
1st quarter	119	147	97	116	142	144	143
2nd quarter	111	154	86	152	143	147	145
3rd quarter	100	157	92	129	146	147	147
4th quarter	173	186	96	181	149	150	150
1974							
1st quarter	173	179	93	213	153	153	155
2nd quarter	175	178	105	213	--	--	--

Year	Prices of supplies and services bought by marketing firms: Containers, packaging	Fuel, power and light	Rentals and services	Rail freight rates for: Livestock	Dressed meats
	Index 1967 = 100				
1963	95	99	86	100	117
1964	96	98	88	99	113
1965	97	99	91	99	104
1966	99	99	95	99	100
1967	100	100	100	100	100
1968	100	99	106	104	103
1969	104	99	113	108	107
1970	108	108	120	119	117
1971	114	121	128	135	132
1972	117	126	138	140	136
1973	123	138	146	146	138
1st quarter	120	131	142	--	--
2nd quarter	123	135	145	--	--
3rd quarter	124	138	147	--	--
4th quarter	126	147	149	--	--
1974					
1st quarter	131	175	149	--	--
2nd quarter	145	200	155	--	--

Table 7. --Profit ratios (after Federal income taxes) of all manufacturing, manufacturers of food, textiles, apparel and 15 retail food chains, annual 1960-73, quarterly 1972-74 1/

Year and quarter	Food Manufacturers: Total 2/	Dairy	Bakery	Meat-packers 3/	Textile-mill products	Apparel and other finished products	All manufacturing industries	15 retail food chains 3/
	Profits as percentage of stockholder equity							
1960	9.2	---	---	---	5.8	7.7	9.3	13.0
1961	9.4	---	---	---	5.0	7.3	8.9	12.0
1962	9.2	---	9.2	---	6.2	9.3	9.8	11.7
1963	9.3	8.6	9.4	---	6.1	7.7	10.3	11.4
1964	10.4	9.5	9.1	---	8.6	11.9	11.7	11.5
1965	11.0	10.7	9.2	---	10.9	12.8	13.1	11.3
1966	11.5	11.4	10.9	7.1	10.3	13.8	13.6	11.4
1967	11.1	10.3	12.2	11.5	7.6	12.2	11.8	10.3
1968	10.9	9.8	11.9	10.2	8.8	13.0	12.2	10.3
1969	11.0	10.1	8.6	8.8	7.9	11.9	11.5	10.4
1970	10.9	10.2	8.8	8.7	5.1	9.3	9.3	10.6
1971	11.1	11.1	10.7	10.8	6.7	11.2	9.7	10.1
1972	11.3	10.1	10.6	9.1	7.5	12.0	10.6	5.1
1973	12.8	10.8	5.8	11.2	9.0	10.8	12.6	7.6
1972								
January-March	10.1	10.0	11.3		6.4	10.9	9.5	---
April-June	11.7	11.1	11.3	---	7.3	9.3	1.3	---
July-September	10.9	10.0	10.4	---	7.3	12.4	10.1	---
October-December	11.7	9.6	9.6	---	9.0	15.1	11.5	---
1973								
January-March	11.2	9.6	8.1	---	8.4	8.0	11.6	---
April-June	12.5	11.1	5.0	---	11.1	14.6	14.0	---
July-September	13.7	12.7	1.4	---	8.6	6.3	12.3	---
October-December	15.2	9.6	8.6	---	7.9	14.3	13.4	---
	Profits as a percentage of sales							
1960	2.2	---	---	---	2.5	1.4	4.4	1.3
1961	2.2	---	---	---	2.1	1.3	4.3	1.2
1962	2.2	---	2.3	---	2.4	1.6	4.5	1.2
1963	2.2	1.9	2.2	---	2.3	1.4	4.7	1.2
1964	2.5	2.3	2.2	---	3.1	2.1	5.2	1.3
1965	2.6	2.5	2.1	---	3.8	2.3	5.6	1.2
1966	2.5	2.5	2.3	.9	3.6	2.4	5.6	1.2
1967	2.4	2.4	2.6	1.4	2.9	2.3	5.0	1.1
1968	2.4	2.3	2.6	1.2	3.1	2.4	5.1	1.1
1969	2.4	2.2	1.9	1.2	2.9	2.3	4.8	1.1
1970	2.3	2.1	1.9	.9	1.9	1.9	4.0	1.1
1971	2.4	2.3	2.3	1.3	2.4	2.4	4.1	.9
1972	2.4	2.0	2.2	1.0	2.6	2.4	4.3	.6
1973	2.5	2.0	1.1	1.1	2.8	2.0	4.7	.7
1972								
January-March	2.2	1.9	2.4	1.0	2.3	2.3	4.0	1.1
April-June	2.5	2.1	2.4	0.8	2.5	2.0	4.5	.4
July-September	2.3	2.0	2.2	0.9	2.6	2.3	4.2	.1
October-December	2.4	1.9	2.0	1.2	2.8	2.7	4.4	.8
1973								
January-March	2.2	1.9	1.6	1.0	2.8	1.6	4.5	0.4
April-June	2.4	2.0	1.0	.9	3.4	2.8	5.1	0.7
July-September	2.5	2.3	.3	1.0	2.8	1.2	4.6	0.5
October-December	3.0	1.7	1.4	1.5	2.5	2.6	5.6	1.0 0.9
1974								
January-March	2.5	---	---	1.3	3.1	---	5.6	0.9
April-June	---	---	---	[illegible]				[illegible]

1/ Compiled from Quarterly Financial Report for Manufacturing Corporations published by the Federal Trade Commission and Securities and Exchange Commission. 2/ Food and kindred products excluding alcoholic beverages. 3/ Compiled from Moody's Industrial Manual. Data for 1973 and 1974 are preliminary. 4/ Based on 6 firms. 5/ Based on 9 firms.

Table 4. Profits after taxes as a percent of sales for 15 leading food chains, quarterly 1972-74

Chains	1972 I	1972 II	1972 III	1972 IV	1973 I	1973 II	1973 III	1973 IV	1974 I	1974 II	
					Percent of sales						
American	0.72	-0.50	-0.28	1.04	-0.13	0.54	0.56	0.98	0.99	0.97	
Allied	0.18	0.05	0.07	0.43	0.18	1.02	0.09	0.53	-0.78	0.40 ~~1/~~	
Colonial	1.21	1.36	1.08	1.43	1.08	1.36	1.02	1.97	1.24	1.48	2
First National	0.61	-0.15	-0.19	0.08	0.26	-1.74	1.04 ~~-0.83~~	-1.40	-4.06	0.22	-0.11
Food Fair	0.76	0.02	-1.59	0.26	0.68	0.28	0.77 ~~-1.16~~	0.32	0.63	0.41	0.17
Grand Union	0.81	0.75	0.40	0.39	0.86	0.40	0.43	0.48	-0.63	0.29	
A&P	-0.11	-1.38	-1.33	-0.52	-0.24	0.15	-0.21	0.05	0.70	0.59	0.29
Jewel	2.45	1.09	1.26	1.40	2.36	0.88	1.25 ~~2.22~~	2.22 ~~2.15~~	2.15 ~~1.37~~	1.37 ~~1/~~	1.06
Kroger	1.13	0.45	-0.30	0.86	0.39	0.58	0.53	1.33	0.89	0.74	0.89
Lucky	2.47	1.47	1.32	1.36	1.93	1.29	1.35	1.59	1.59	1.36	
National Tea	0.81	0.65	-1.01	0.01	2/-13.36	-1.71	-1.66	-1.54	-0.94	-0.61 ~~1/~~	
Safeway	1.36	1.51	1.43	1.65	1.23	1.44	1.02	1.37	1.41	1.56	1.64
Stop & Shop	1.39	0.04	0.02	0.50	1.93	0.36	0.47	0.68	1.72	0.54	
Winn Dixie	2.28	2.44	1.87	1.84	2.10	2.31	1.75	1.87	2.44	1.46 ~~1/~~	2.05
Supermarkets General..	1.34	0.07	0.05	0.12	1.00	1.03	0.44	0.25	0.63	0.31	0.52
Average	1.08	0.40	0.11	0.77	0.37	0.69	0.45	0.92	0.89	0.92	3.91 3/

1/ Not available. 2/ Reflects extraordinary charges associated with obligations on closed stores. 3/ Based on 7 firms.

Compiled from Moody's Industrial Manual.

ble 5. Profits after taxes as a percent of sales for 10 leading meat packers, quarterly 1972-74

Meat packers	1972				1973				1974		
	I	II	III	IV	I	II	III	IV	I	II	III
	Percent of sales										
mark (Swift)	1.01	0.97	1.07	1.49	1.08	1.06	1.24	1.52	1.37	1.47	1.52
Iowa Beef	0.52	0.45	0.48	0.82	0.81	0.80	0.46	1.69	1.32	0.55	1.55
Hormel	1.41	0.38	0.98	1.52	1.03	0.09	0.62	1.72	1.64	1.13	2.09
Oscar Mayer	2.21	2.25	2.36	2.11	1.99	2.10	2.10	1.70	2.52	1.98	3.55
Am. Beef Packers	0.21	0.21	0.35	0.36	0.36	0.49	0.49	1.00	0.08	0.08	
Hygrade	2.26	0.84	0.84	1.50	2.01	1.22	1.22	0.97	1.21	0.92	1.75
Spencer Foods	-0.26	-0.54	-0.26	-0.38	0.42	0.31	0.17	1.84	0.89	0.64	
Flavorland (Needham) .	0.63	0.63	0.60	0.30	0.92	0.27	0.85	1.30	0.63	-0.41	
Missouri Beef	0.36	0.11	0.68	1.08	0.70	0.44	0.63	2.48	1.91	0.22	
Tobin	0.09	-0.91	-0.12	-0.24	-0.19	-0.55	0.28	-0.15	-0.19	-0.20	0.58
Average	0.96	0.75	0.91	1.19	1.03	0.88	0.95	1.52	1.33	1.05	1.82

Based on 6 firms.
Compiled from Moody's Industrial Manual.

Table 8.—Meat subject to U.S. import quota restriction: Product weight of imports by months, average 1959-63, 1964-74

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.
1959-63 average	47.3	49.6	57.5	54.3	48.5	58.6	67.1	84.1	76.1	61.6	56.1	61.4	722.2
1964	87.2	44.9	68.9	61.4	51.1	98.1	43.7	79.5	49.6	46.4	55.7	53.4	739.9
1965	78.2	34.5	68.7	32.4	52.3	41.9	58.5	59.9	62.2	64.4	57.2	53.7	613.9
1966	51.4	60.3	49.4	63.3	52.0	100.2	61.4	87.1	91.5	79.7	61.1	66.0	823.4
1967	77.4	58.5	61.9	58.8	51.5	69.6	88.7	92.2	89.8	91.8	82.3	72.4	894.9
1968	80.7	72.6	64.1	78.4	56.1	105.1	86.4	108.6	115.5	102.1	95.8	35.6	1,001.0
1969[1]	41.9	50.4	136.1	90.0	80.5	85.7	107.1	141.8	121.4	108.4	51.4	69.4	1,084.1
1970[1]	124.5	100.7	112.0	88.7	62.1	93.4	110.0	113.0	107.6	89.3	79.3	89.8	1,170.4
1971[1]	83.4	65.1	88.3	86.2	76.8	101.0	94.4	104.9	158.6	80.4	63.2	130.3	1,132.6
1972[1]	86.9	80.8	75.4	105.4	107.9	106.4	106.8	164.6	163.8	145.1	119.0	93.4	1,355.5
1973[1]	106.2	98.4	88.3	97.9	113.1	91.5	105.9	153.7	110.3	150.0	130.0	109.1	1,354.4
1974	118.0	82.3	104.9	91.4	80.6	78.6	59.4	101.4	42.9				

[1] Rejections for calendar year 1969 equaled 13.5 million pounds, 17.4 million pounds for 1970, 21.0 million pounds for 1971, 17.8 million pounds for 1972, and 18.4 million pounds for 1973.

Table 7.—U.S. meat imports and exports and percentage comparisons (carcass weight), 1973 and 1974

Months	Beef and veal			Lamb and mutton[1]			Pork			Total meat		
	1973	1974	Change	1973	1974	Change	1973	1974	Change	1973	1974	Change
	Mil. lb.	Mil. lb.	Pct.	Mil. lb.	Mil. lb.	Pct.	Mil. lb.	Mil. lb.	Pct.	Mil. lb.	Mil. lb.	Pct.
IMPORTS												
January	167	178	+7	4	1	-67	44	43	-3	215	222	+8
February	148	127	-14	7	3	-58	39	47	+20	194	177	-9
March	128	163	+27	8	4	-52	37	52	+41	173	219	+27
April	141	137	-3	5	6	+16	48	43	-11	194	186	-4
May	163	125	-24	7	2	-74	48	39	-18	218	166	-24
June	139	129	-7	3	4	+13	45	29	-34	187	162	-13
July	160	99	-38	5	2	-65	38	33	-13	203	134	-34
August	227	161	-29	4	1	-78	42	25	-42	273	187	-32
September	169	135	-20	2			38			209		
October	222			5			48			273		
November	192			3			46			241		
December	164			1			39			204		
Total	2,020			52			512			2,584		
EXPORTS												
January	6.50	9.57	+47	0.20	.15	+77	6.10	4.76	-22	12.80	14.68	+15
February	5.04	8.77	+74	.20	.26	+30	12.14	3.13	-74	17.38	12.16	-30
March	6.83	8.06	+18	.25	.34	+35	33.55	4.12	-88	40.63	12.52	-69
April	6.37	6.03	-5	.22	.41	+83	31.15	5.88	-81	37.74	12.32	-67
May	7.99	4.66	-42	.17	.22	+27	29.72	6.22	-79	37.88	11.10	-71
June	8.51	3.48	-59	.16	.22	+42	14.54	9.19	-37	23.21	12.69	-44
July	6.93	3.82	-45	.22	.41	+90	5.68	8.19	+44	12.83	12.42	-3
August	6.76	3.06	-55	.28	.24	-14	4.10	13.20	+222	11.14	16.50	+48
September	5.22	3.34	-36	.21			6.03			11.46		
October	9.32			.25			13.96			23.53		
November	11.02			.32			8.68			20.02		
December	10.41			.26			5.43			16.10		
Total	90.90			2.74			171.08			264.72		

[1] Includes goat meat.

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1st Half 1973
FORTUNE 500 INDUSTRIALS	5.0	5.5	5.6	5.0	4.8	4.6	3.9	3.8	4.1	4.5	N.A.
FOOD RETAILING*	1.3	1.3	1.2	1.1	1.1	1.1	1.1	1.0	.85	.75	N.A.
JEWEL COMPANIES	1.6	1.7	1.6	1.4	1.5	1.6	1.4	1.5	1.6	1.6	1.6

*29 Major Publicly Owned Supermarket Companies

TABLE 2
PERCENT OF NET PROFIT RETURN ON NET WORTH

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1st Half 1973
FORTUNE 500 INDUSTRIALS	10.5	11.8	12.7	11.5	11.7	11.3	9.5	9.1	10.3	12.4	N.A.
FOOD RETAILING*	11.6	11.6	11.5	10.5	10.9	11.0	10.7	9.3	6.9	8.2	N.A.
JEWEL COMPANIES	12.1	13.0	12.5	12.3	13.1	15.2	11.8	12.2	12.0	11.5	9.5

*29 Major Publicly Owned Supermarket Companies

Table 3
JEWEL COMPANIES, INC.
1973

CASH USED:

	(IN MILLIONS)
WORKING CAPITAL (INVENTORIES AND CASH)	22.4
LAND, BUILDINGS, EQUIPMENT, TRUCKS	77.9
DIVIDENDS TO SHAREHOLDERS	12.5
REPAYMENT OF DEBT	4.7
TOTAL	$117.5

CASH GENERATED:

PROFIT	30.6
DEPRECIATION & DEFERRED ITEMS	36.6
SALE OF STOCK	.3
NEW DEBT	50.3
TOTAL	$117.5

Table 4
FOOD RETAILING INDUSTRY*

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
GROSS MARGIN %	19.75	20.00	20.72	20.60	20.60	20.60	20.30	20.31	19.97	20.02
STORE, OFFICE, WAREHOUSE, TRANSPORTATION, INTEREST EXPENSE %	17.60	17.73	17.96	18.12	18.47	18.20	18.43	18.62	19.00	18.74

*29 major publicly owned supermarket companies

Table 5
The Supermarket Mix Problem

	Unit Cost	Unit Retail	Product Mix I Unit Sales	Product Mix II Unit Sales
Campbell's Tomato Soup	.15	.17	50	12
Prepared Potato Salad 1 lb.	.35	.69	1	0
C/H Sugar 5 lbs.	1.05	1.03	5	5
Hamburger 1 lb.	.70	.98	5	5
Sirloin Steak 1 lb.	1.12	1.59	1	0
Red Cross Spaghetti 1 lb.	.30	.45	5	7
Total Units			77	29

	Product Mix I	Product Mix II
Total Sales	$20.65	$19.94
Total Cost	$16.40	$15.80
Gross Margin $	$ 4.20	$ 4.14

Donald S. Perkins

	[illegible]	[illegible]	[illegible]	[illegible]
Annual Average				
1971 . . .	$.5731	$.7[illegible]	$.[illegible]	[illegible]
1972 . . .	.6057	.7[illegible]	.2729	22.16
1973 . . .	.7455	.9168	[illegible]	20.67
1974, period (4 weeks)				
1 . .	.8045	.9757	.1712	17.70
2 . .	.7333	.9306	.1759	19.75
3 . .	.6712	.8452	.1740	20.25
4 . .	.7775	.9515	.1575	17.12
5 . .	.7572	.9429	.1624	18.57
6 . .	.7419	.9228	.1649	19.42
7 . .	.7501	.9127	.1622	19.13
8 . .	.7540	.9252	.1712	18.62
Weighted Average – 1st 32 Weeks of 1974	.7419	.9181	.1763	19.05

Table 7

[illegible] Meat Department
Jewel Food Stores

Year or Period	Avg. Cost Per lb.	Avg. Retail Per lb.	$ Per lb. Margin	Gross Profit %
1971	.5470	.7226	.2066	27.[illegible]
1972	.6032	.7322	.2240	27.[illegible]
1973	.7247	.9021	.[illegible]	[illegible]
1974 Period (4 Weeks)				
1st. Pd.	.7410	.9436	.[illegible]	21.13
2nd Pd.	.7477	.9442	[illegible]	21.19
3rd Pd.	.7168	.8677	.1546	18.07
4th Pd.	.6948	.8672	.1723	20.65
5th Pd.	.7134	.9097	.1963	21.58
6th Pd.	.7216	.9176	.1960	21.37
7th Pd.	.8025	1.0[illegible]	.[illegible]	19.79
8th Pd.	.7206	.[illegible]	.2010	21.19
Weighted Average – 1st 32 Weeks of 1974	.7370	.9257	.2013	20.83

TABLE 8
JEWEL FOOD STORES
PER WEEK PER STORE INDEX

	1968 (BASE YEAR)	1969	1970	1971	1972	1973	1ST 32 WEEKS 1973	1ST 32 WEEKS 1974
SALES	100	161	207	202	216	234	240	279
GROSS MARGIN	100	125	180	200	216	250	235	326
KEY EXPENSES:								
PAYROLL & SUPPLIES	100	169	195	218	239	275	268	330
ADVERTISING	100	177	125	147	148	160	156	242
RENT	100	139	164	190	207	237	227	344
UTILITIES	100	130	163	185	272	322	255	376
HEALTH INSURANCE	100	161	195	240	296	394	413	460
TAXES (NON-INCOME)	100	257	265	373	353	479	470	605
TRANSPORTATION/WAREHOUSING	100	176	220	232	252	2[illegible]	267	349

onald S. Perkins
EWEL COMPANIES, INC.

Beef Industry Fact Sheet

I. Cattle raisers: The cost squeeze of cattlemen is well known. Data is easily attainable. In the emotional debate, two facts seldom come out:

A. Cattle raisers claim that reducing meat imports will help alleviate their difficulties, but USDA data reveals that only 7% of the meat consumed in this country is imported.

B. Cattlemen's pleas to Congress resulted in the passage of the Emergency Livestock Credit Bill in July, 1974, which granted cattlemen two billion dollars in emergency loans. As of the first week in October only 32 loans had been made for a total of $4,613,398—less than ½ of 1 percent of the money available, according to the Department of Agriculture.

II. Concentration—Buying power:

"For the 25 largest fed-cattle slaughtering States, accounting for 96 percent of fed-cattle slaughter, weighted average market shares at the four-farm level for meat packers were about 56 percent in 1969, 55 percent in 1970, 59 percent in 1971, and 62 percent in 1972. During this 3-year period, average market shares increased more than 5 percentage points.

In general, buyer availability on a State level overstates buyer availability at the feed-lot. . . . In established feeding areas most fed cattle move to plants that are within 75 miles of the feedlot. Many farmer-feeders have as few as three, four, or possibly five buyers who are available to bid on their livestock.

This relative fewness of buyers means that the buying side of the market has more market power than the selling side. A decision on the part of a single buyer to buy or not to buy may have an effect on price. A similar decision on the part of a single seller has no price effect at all." (Dr. Gerald Engelman, Director, Industry Analysis Staff, USDA, February 26, 1974.)

B. Vertical integration into feeding: "The combined slaughter in 1972 of the 17 meat-packing firms affiliated with feedlots was approximately 40% of the total livestock slaughtered under Federal inspection." (Packers and Stockyards Administration, USDA)

C. Profits—

1. 1973—"With few exceptions beef packers posted record profits in fiscal year 1973." The more striking examples were Iowa Beef Packers with a 66% profit increase last year and American Beef Packers, who reported a 288% profit. (Barron's, March 25, 1974.)

2. 1974—Profits for the nine largest packing plants during the first six months of '74 were up 36% (over 1973's record levels). (James Wishart, Research Director, Amalgamated Meat Cutters, before House Agriculture Comm., 10/22/74.)

III. Retailers—Available evidence shown profiteering in meat:

"The changes in meat price spreads and general marketing costs suggest that the profits for retailing meat increased sharply during the first half of 1974. Based on this circumstantial evidence, it appears that the increase in meat price spreads was caused partially by food retailers changing their pricing policies to increase profits in their meat departments." (Special Task Force Report on *Farm-Retail Price Spreads for Red Meat*, August, 1974.)

Beef, Choice: Retail price, carcass value, farm value, farm-retail spread, and farmer's share of retail price, 1967-73 annually and 1972-74 by months

Table 1

Date	Retail price per pound 1/	Carcass value 2/	Net farm value 3/	Farm-retail spread: Total	Farm-retail spread: Carcass retail	Farm-retail spread: Farm carcass	Farmer's share
	Cents						Percent
1967	82.6	59.4	53.0	29.6	23.2	6.4	64
1968	86.6	63.1	56.7	29.9	23.5	6.4	65
1969	96.2	68.7	62.2	34.0	27.5	6.5	65
1970	98.6	68.3	61.5	37.1	30.3	6.8	62
1971	104.3	75.6	67.9	36.4	28.7	7.7	65
1972	113.8	80.0	72.5	41.3	33.8	7.5	64
1973	135.5	98.1	90.1	45.4	37.4	8.0	66
1974							
1972							
Jan.	111.5	82.5	74.1	37.4	29.0	8.4	66
Feb.	115.8	82.6	75.0	40.8	33.2	7.6	65
Mar.	115.8	79.0	71.9	43.9	36.8	7.1	62
Apr.	112.0	77.3	70.2	41.8	34.7	7.1	63
May	111.4	81.1	73.0	38.4	30.3	8.1	66
June	113.5	85.1	77.5	36.0	28.4	7.6	68
July	117.3	84.3	77.5	39.8	33.0	6.8	66
Aug.	115.8	78.5	71.0	44.8	37.3	7.5	61
Sept.	112.9	76.7	69.6	43.3	36.2	7.1	62
Oct.	112.8	76.4	69.1	43.7	36.4	7.3	61
Nov.	112.3	74.1	66.6	45.7	38.2	7.5	59
Dec.	114.6	82.6	74.6	40.0	32.0	8.0	65
1973							
Jan.	122.1	90.3	82.4	39.7	31.8	7.9	67
Feb.	130.3	95.7	87.5	42.8	34.6	8.2	67
Mar.	135.3	99.1	92.3	43.0	36.2	6.8	68
Apr.	136.0	99.7	91.3	44.7	36.3	8.4	67
May	136.0	99.0	92.7	43.3	37.0	6.3	68
June	135.5	101.4	94.6	40.9	34.1	6.8	70
July	136.3	102.5	96.7	39.6	33.8	5.8	71
Aug.	144.2	4/ 111.8	108.5	35.7	4/ 32.4	4/ 3.3	75
Sept.	144.9	101.8	91.9	53.0	43.1	9.9	63
Oct.	136.0	92.6	83.2	52.8	43.4	9.4	61
Nov.	134.9	90.1	80.0	54.9	44.8	10.1	59
Dec.	134.4	93.4	79.6	54.8	41.0	13.8	59
1974							
Jan.	143.0	106.7	96.9	46.1	36.3	9.8	68
Feb.	150.0	108.2	94.5	55.5	41.8	13.7	63
Mar.	142.2	95.9	86.0	56.2	46.3	9.9	60
Apr.	136.4	94.6	84.5	51.9	41.8	10.1	62
May							
June							
July							
Aug.							
Sept.							
Oct.							
Nov.							
Dec.							

1/ Weighted average price of retail cuts from Choice beef carcass. 2/ Wholesale value of 1.41 pounds--the quantity of Choice carcass equivalent to 1 pound of retail cuts. 3/ Payment to farmer for 2.28 pounds Choice steer minus allowance for value of byproducts. 4/ Estimated.

USDA, Economic Research Service

Average Prices and Margins for Feeding, Packing, and Retail Sectors of the Beef Industry

Annual Average	Cattle Price 1/ ¢/lb.	Feeding Margin a/ ¢/lb.	Whole-sale Price 2/ ¢/lb.	Packing Margin b/ ¢/lb.	Retail Price 3/ ¢/lb.	Retail Margin c/ ¢/lb.
1968	26.83	+0.5	43.84	+2.0	86.6	25.1
1969	29.66	+ .7	47.75	+1.0	96.2	29.2
1970	29.34	-4.0	46.82	-1.0	98.6	32.1
1971	32.42	-1.0	53.39	-3.9	104.3	30.1
1972	35.83	-2.4	55.34	-3.3	113.8	35.5
1973	44.52	-4.8	67.57	-5.0	135.5	37.7
Monthly 1973						
January	40.65	-1.42	62.9	-3.4	122.1	32.8
February	43.54	.25	66.9	-4.1	130.3	34.6
March	45.65	1.50	69.4	-5.0	135.3	36.2
April	45.03	1.86	69.8	-3.6	136.0	36.3
May	45.74	- .03	69.2	-5.4	136.0	37.0
June	46.76	- .57	70.9	-5.3	135.5	34.1
July	47.66	-3.32	71.9	-5.8	136.3	33.8
August	52.64	-4.39	N.A.	N.A.	144.2	35.7
September	45.12	-6.70	69.7	-3.8	144.9	43.1
October	41.92	-12.63	65.6	-2.7	136.0	43.4
November	40.14	-14.17	62.0	-3.4	134.9	44.8
December	39.36	-17.13	65.0	+ .8	134.4	41.0

Average Prices and Margins for Beef Industry (continued)

Monthly 1974	Cattle Price ¢/lb.	Feeding Margin ¢/lb.	Wholesale Price ¢/lb.	Packing Margin ¢/lb.	Retail Price ¢/lb.	Retail Margin ¢/lb.
January	47.14	-15.26	75.6	-1.2	143.0	36.3
February	46.38	-8.68	75.8	-1.8	150.0	41.8
March	42.85	-9.01	67.6	-2.2	142.0	46.3
April	41.54	-9.48	66.5	-1.2	136.4	41.8

Primary source: USDA

Notes:

Prices: 1) Cattle prices are for choice fed steers.

2) Wholesale price is for choice steer carcasses.

3) Retail is average retail.

Margins are computed on cost of beef input and average yield:

a) Feeding = Fed cattle price - price of feeders six months prior.

b) Wholesale = Wholesale price - (1.63 x fed cattle price).

c) Retail = Average retail - (1.41 x wholesale price).

THE OVERSTATEMENT OF MARKETING MARGINS BY THE U. S. DEPARTMENT OF AGRICULTURE

Supplemental Statement to

STATEMENT OF ROBERT W. BRAUNSCHWEIG

VICE PRESIDENT, THE KROGER CO.

November 19, 1974

Marketing margins are defined as the difference between the amount producers receive for a raw commodity and the amount consumers ultimately pay for a final product. The margin is not the profit from the marketing. The margin should cover all charges for transportation, labor, processing, packaging, storage, financing, risk, cost of selling, and profit, if possible. Historically, variations in gross margins have largely tended to reflect variations in costs rather than in profits. As our costs advanced, gross margins also advanced, but our profits have actually declined.

The determination of the marketing margin is relatively simple for products which are sold at farm and retail in the same form, shell eggs being a good example. In contrast, the marketing margins of products which not only vary in quality and type at the farm or wholesale level but are also sold in many different forms at retail or have to be processed before sold to consumers are more difficult to determine.

According to our internal operating records, the marketing margin for beef sold at retail, as calculated by the USDA, is grossly overstated. In fact, the actual margin in real life is only about half of what the USDA reports. We stand firmly on this statement. We are willing to permit this Subcommittee to audit our documentation.

Because of the USDA's gross overstatement of the marketing margin, the retail sector of the meat industry has been unduly criticized for earning excessive profits and for failing to reflect lower retail prices immediately following declines in cattle prices at the farm level. The overstatement of the marketing margin by the USDA is a result of inaccurate basic data and incorrect methodology.

The following are documented examples of distortions in USDA-computed farm-retail price spreads for beef. We wish to point out that beef margins are not an isolated case of inaccurate reporting; however, today our comments are confined to beef.

It may be of interest to this Subcommittee that the National Commission on Food Marketing dealt with the same problem during 1964-66. Its observations led to a special study of beef margins. The conclusion of that study was that beef margins were overstated by the USDA by 7¢ per pound (NCFM, Technical Study No. 1, pp.71-79) and that similar overstatements were true of pork, turkeys, and broilers. Other studies of margins were conducted independently by agricultural economists (Texas A&M) and again their research concluded that farm-retail marketing margins were overstated by the USDA. Despite such findings, the USDA has failed to correct the deficiencies. The Kroger Co. has offered to open its operating records--in confidence--to USDA representatives, but the offer has not generated any interest.

Let us examine the principal inconsistencies in the USDA marketing margin calculations:

1. DRESSING YIELDS

In calculating the marketing margin for beef, the USDA uses estimates of cutting yields to determine the number of pounds of beef from a steer carcass which is actually sold by the retailer to the consumer.

There are two types of retail cutting, or dressing, yields considered: gross and net yields. The final figure entering the marketing margin calculation is the net retail dressing yield. The USDA estimates the net retail dressing yield after it attempts to measure the gross retail dressing yield from yield charts furnished by the retailers.

The Kroger Co. furnished the USDA with its dressing yield charts in March, 1967, and these showed a gross yield of retail cuts from a carcass of 73.96% for our Detroit Division. In addition to the Kroger Detroit Division, 39 other retail organizations have reported their gross retail dressing yields to the USDA. These reports were aggregated by the USDA into an average retail food industry gross retail dressing yield of 74.6%.

Gross retail dressing yields are not the final yields available to the retailer. Actual or net retail dressing yields must also reflect retail shrink. Retail shrink results from pilferage, overstock of product which has to be distress-priced of salvaged, customer- or employee-mishandled beef which has to be salvaged (i.e., diverted into inedible uses), careless cutting, etc. The USDA is presently using an average retail industry net dressing yield of 70.9% in their calculation of marketing margins. The figure of 70.9% was arrived at by allowing 5% for shrink from the gross retail dressing yield of 74.6%. The Kroger (Detroit) net retail dressing yield figure entering into this composite figure for the entire retail food industry was 71.9%.

The problem in calculating the marketing margin is in the fact that the current net retail dressing yield is not 71.9% for Kroger. It is only 65%.

How did this happen?

Over a period of years, feedlot operators have been feeding cattle to a higher finish and increasingly heavier weights. The average dressed weights of steers have been rising steadily since 1965. (see Figure 1.) The average dressed weight of steers in 1965 was 647 pounds. For the first eight months of 1974, the average dressed weights of steers was 705 pounds, or an increase of 58 pounds over 1965. With consumers indicating a preference for more boneless and more closely trimmed retail cuts, the gross retail dressing yields realized by the retailers have been declining.

Our recent cutting tests from the Detroit Division submitted to the USDA in July, 1974, show only a 67.04% gross retail dressing yield from a USDA Choice grade steer carcass. Our gross retail dressing yield has been adjusted downward to 65% by the USDA to allow for retail shrink. In our experience, we consider this final figure realistic--for the type of cattle currently available.

However, today the USDA is still using in their calculation of marketing margins an aggregate net retail dressing yield figure of 70.9%, which was determined during 1967-68.

If we translate this malpractice into actual Kroger experience--namely, the decline from the 1967 net retail dressing yield of 71.9% to the current net dressing yield of 65%--the USDA is saying that from a 620 pound steer carcass Kroger is selling 446 pounds of retail cuts when the actual number of pounds sold is only 403 pounds.

Thus, the present marketing margin calculation by the USDA--focusing only on the Kroger Detroit Division--credits Kroger with a sale of 43 additional pounds which never existed as retail cuts. Using the August, 1974, retail beef price estimate of $1.434/pound (calculated by the USDA), this means a revenue of $61.66 per carcass to Kroger which simply is not there. This money never passed through the cash registers.

To illustrate further, on an industry-wide basis no longer limited to the Kroger experience alone, the marketing margin, based on an average net retail dressing yield of retail cuts of 70.9% when the assumed retail industry yield is 65%, will overstate the true margin by $6-12/cwt. or 6-12¢/pound, depending on the farm or wholesale price level. At today's wholesale prices this means an overstatement of between 8-9¢/pound. (See Table 1 and Figure 2.)

Table 1. (All prices in dollars per cwt.)

	Weight	Case 1	Case 2	Case 3	Case 4
Farm Price - Live	1,000#	$30.00	$ 40.00	$ 50.00	$ 60.00
Live-to-Carcass Yield (Wholesale)		62%	62%	62%	62%
Carcass Value	620#	$48.39	$ 64.52	$ 80.65	$ 96.77
Cost of Salable Portion of Carcass at Retail:					
(a) 65.0% Yield of Carcass	403#	$74.45	$ 99.26	$124.08	$148.88
(b) 70.9% Yield of Carcass	440#	$68.25	$ 91.00	$113.75	$136.49
Average Retail Price*		$91.25	$121.00	$147.75	$173.49
Less Cost in 70.9% Yield (USDA)		68.25	91.00	113.75	136.49
USDA Margin		$23.00	$ 30.00	$ 34.00	$ 37.00
Average Retail Price*		$91.25	$121.00	$147.75	$173.49
Less Cost in 65.0% Yield (Kroger)		74.45	99.26	124.08	148.88
Estimated Margin		$16.80	$ 21.74	$ 23.67	$ 24.61
Overstatement of Carcass-Retail Spread		$ 6.20	$ 8.26	$ 10.33	$ 12.39

*Not any actual historical figures, but "typical" USDA average retails calculated from net retail dressing yields for comparison purposes.

The yield of retail cuts from a USDA Choice grade steer carcass does vary seasonally depending on weight and finish of cattle being marketed. (see Figure 3.) Retail chains also vary cutting procedures seasonally, increasing the yield of roasts during the winter months and the yield of steaks during the summer months. These variations in yields and cutting procedures should be accumulated by the USDA and incorporated into their determination of price spreads, but they are not. The last general revision of retail dressing yields was in 1967.

2. INCONSISTENCY OF AVERAGE FARM AND WHOLESALE BEEF PRICES USED

The USDA's marketing margin for beef is calculated by using the average price of all USDA Choice grade steers marketed at the seven leading terminal markets, less transportation costs (from farm to market) and commission charges, as a proxy for the farm level price. However, when the USDA reports wholesale prices, it no longer uses the average price of all USDA Choice grade steer carcasses, but rather a narrower range of USDA Choice grade steer carcasses, weighing 600-700 pounds. No regard is given to the fact that not all USDA Choice grade steers at the farm level will yield a 600-700 pound carcass, nor to the fact that even the retail dressing yields of 600-700 pound USDA Choice grade steer carcasses vary substantially. Just because a USDA Choice grade steer carcass weighs only 600-700 pounds is no indication that the carcass is not fat.

Even research conducted by the USDA in 1959 and 1960 indicated that beef carcasses varying in weight and/or finish would result in different yields of retail cuts. More specifically, the USDA study indicated that the percentage yield of boneless retail cuts declined with increases in weight and/or fat cover. Our research indicates that weight gains of fed steers above 1,050 pounds are largely in the form of unsalable fat, and consumers actually resist purchasing meat from overfinished cattle. Therefore, such cattle sell at a discount.

It is normal for higher-yielding and more desirable quality steers to command price premiums above the average- or lower-yielding animals. On a farm price basis, such a premium has usually been in the range of $2-4/cwt., while on a wholesale carcass basis, such premiums have averaged $3-7/cwt.

The USDA recognizes five different yield grade levels for cattle. Each yield grade level indicates a different potential yield of retail cuts from a carcass. Kroger buying specifications call for Yield Grade 2 & 3, 600-800 pound USDA Choice grade steer carcasses. Yield Grade 2 & 3 carcasses will yield a higher percentage of retail cuts than Yield Grade 4 & 5 carcasses. Yield Grade 4 & 5 carcasses are not desired under our procurement program. The prices typically paid for Yield Grade 2 & 3 represent the top of the range of prices paid for USDA Choice grade steer carcasses in each specific weight group. Therefore, marketing margins based on average prices of either live steers and/or carcass beef will tend to be overstated, because the costs actually paid by The Kroger Co., and possibly other retailers, are higher than those computed by the USDA.

The net effect of this practice--i.e., comparing price data which are not comparable--is to overstate the beef marketing margins by $5-10/cwt., retail weight basis.

The following are examples of price ranges as reported by the USDA in a midwestern location for selected days:

Table 2. (All prices in dollars per cwt.)

USDA Choice Grade Steers	12/6/73	3/7/74	11/5/74
Yield Grade 2 & 3	36-37	39.5-42	38-39.5
Yield Grade 4*	32-33	35.5-38	N.A.
Yield Grade 5*	29-30	31-33.5	N.A.
USDA Choice Grade Steer Carcasses			
Yield Grade 3 (600-700 pounds)	61-61.5	66	62-62.5
Yield Grade 3 (800-900 pounds)	57	61.5-62.5	61.5-62
Yield Grade 4 (800-900 pounds)	52-53	60.5	57-58
Yield Grade 5 (700-1,000 pounds)	47-48	52	N.A.

* Computed from warm carcass discounts.

Source: USDA Livestock Market News Service, Des Moines, Iowa.

During early December, 1973 and March, 1974, the Yield Grade 2 & 3, 600-700 pound USDA Choice grade steer carcasses were commanding a $14/cwt. premium over the Yield Grade 5, 700-1,000 pound USDA Choice grade steer carcasses.

During early November, 1974, the premium for the Yield Grade 2 & 3, 600-700 pound USDA Choice grade steer carcasses over the Yield Grade 4, 800-900 pound USDA Choice grade steer carcasses was $4-5/cwt.

3. SERIOUS OMISSIONS OF TIME LAG

The marketing margins for all meat products are calculated by the USDA, using current prices at all three levels--farm, packer, and retail--with no lag. The minimum length of time required for a steer to pass physically through the complete marketing process is 7-10 days. For some marketing programs, the required time for beef or pork to pass physically through the system approaches 21-28 days, depending on aging or curing procedures. While we make no claim that the "no lag" procedure distorts trends in price spreads over a long period of time, it definitely causes confusion in the minds of cattlemen, economists, politicians, and consumers as to whether changes in farm prices are followed by appropriate changes in retail prices. With the present procedure, the USDA does not report on what happens to the cost of a beef animal as it actually moves from the farm to the retail counter. The present farm, wholesale, and retail comparisons reflect a marriage of totally unrelated information.

Specifically, without a lag between farm and retail prices, the calculated marketing margin will overstate the true marketing margin when farm prices are decreasing and will understate the true marketing margin when farm prices are increasing. The error, based on our net retail dressing yields, would be approximately 2.48 times greater than the change in farm prices or 1.54 times greater than the change in carcass prices.

Thus, if the farm price drops by 10¢/pound (or $10/cwt., the farm-retail price spread is reported to be as much as 24.8¢/pound higher than it actually is, and vice versa if the farm price increases. Price changes at both the farm and wholesale levels have been very substantial during the past 18 months; 10-20% changes have been common. Yet, marketing margins only receive attention during periods of declining prices at the farm level, when retail margins are grossly overstated by the USDA.

4. PRICE EFFECT OF SPECIALS NOT FULLY ACCOUNTED FOR

Further problems are encountered with the technique the USDA uses to calculate the retail value of a carcass. In 1969, the USDA revised their technique used to calculate the price and volume effect of weekend specials. The procedure established in 1969 does not allow for the present trend from weekend specials toward week-long specials which results in more beef being sold at specialed prices; therefore, the retail value of a carcass sold at retail is further overstated by the USDA. According to our operating records, approximately 70% of our meat movement is in cuts that are being specialed at reduced prices. To emphasize, 70% of the total beef tonnage does not move at regular prices, but rather at featured prices.

5. VOLUME EFFECT OF SPECIALS UNDERSTATED

In the process of reviewing the present USDA methodology of calculating the retail value of a carcass, we find that the USDA is also underestimating the volume effect of featured prices. The USDA assumes proportional increases in consumer purchases as price discounts increase. Our merchandising experience tells us that this is not true. The tonnage of beef sold increases more than proportionately as price discounts become greater.

By assuming proportional increases, the USDA in fact assigns a fixed weight to retail beef sales. Thus, when beef becomes more freely available and prices are declining, aggressive retail merchandising takes place and significantly more beef is purchased by the consumer at the sharply lower prices. The USDA beef marketing margin does not fully allow for the tonnage moved at lower retail prices, and therefore further overstates the marketing margin.

The secret to success in mass merchandising is volume. Beef, because of consumer preference, is one of the most essential ingredients. For this reason, our own company's emphasis on continuous merchandising and promotion of beef receives top priority. Without a successful beef or meat program--i.e., without a consumer response to our beef promotions--we cannot be successful retailers. To assume otherwise--i.e., that we do not continually attempt to optimize our beef and meat tonnage--is to ignore the facts of life in food retailing.

6. SOURCES OF RETAIL PRICES

The USDA is currently using two types of price data for the computation of the beef marketing margins:

--Monthly data, which are being supplied by the Bureau of Labor Statistics (BLS).

--Weekly information on retail beef prices, which is furnished to the USDA by 40 cooperating retail chain organizations.

The 40 retail chains are divided geographically into four different marketing areas. The information provided by retail chains is geared essentially to duplicate 29 retail cuts identified by the USDA to represent a carcass.

In contrast to the detailed information supplied by the retail chains, the BLS contributes average prices for seven USDA Choice grade beef cuts which are supposed to measure what consumers pay for all beef. The BLS only collects information once a month. The BLS series has historically overstated the price consumers pay for beef because it does not include non-Choice cuts, does not reflect present merchandising programs, represents only a small portion of the total carcass, and does not reflect beef sold outside retail food stores.

However, there are problems even in the way the USDA is using data furnished by the retail food chains. In fact, distortions have resulted from the way the price and volume data are being determined and calculated. To illustrate:

(a) Cutting procedures employed by the selected cooperating chains are not compatible with the 29 cuts chosen by the USDA to determine the retail value of a carcass. Actually, The Kroger Co.'s Detroit Division has only 24 cuts that even roughly correspond with any of those 29 chosen by the USDA. Thus the accuracy of the USDA carcass value calculation is subject to serious challenge on the basis of cutability alone.

(b) There is a basic and erroneous assumption underlying the USDA's marketing margin calculation--i.e., that retail chains actually merchandise beef in carcass proportions. Nothing could be further from the truth. Retailers purchase much of their beef in the form of quarters, primal, or subprimal cuts, and now in the age of boxed beef also in the form of retail cuts. What this means for farm-retail price spread calculations is clear. By purchasing beef in other forms than the whole carcass the retailer pays a higher price per pound than the reported wholesale price of carcass beef. As a result the wholesale-retail margins are greatly overstated because they report lower costs to retailers than those actually incurred.

(c) If a chain for some reason does not report its weekly prices, or if the reports are delayed by slow mail delivery, according to present techniques this absence of the report is officially recorded as no change in prices from the previous week or from the last report rather than the customary "N.A."--i.e., price "Not Available". Failure to report current retail and special prices of meat products will distort the calculated marketing margins, especially if prices are actually changing. Non-reporting of prices when they are rising will result in an understatement of the marketing margin and an overstatement when they are falling.

7. THRIFTY BEEF VS. FARM-RETAIL BEEF PRICE SPREADS AND THE CONSUMER PRICE INDEX

The expanding merchandising of Thrifty beef--i.e., lower grade and leaner than USDA choice, but also from a young steer or heifer--in retail promotion programs as well as the greater availability of lower grade cattle in relation to USDA Choice grade cattle raises some critical points regarding the USDA's handling of beef statistics, price indexes, and calculations of marketing margins.

(a) Currently, USDA Choice grade beef is used as being representative of farm returns on the one hand and retail beef prices paid by the consumer on the other hand. As the share of lower grade cattle marketings increases, the validity of using only USDA Choice grade cattle prices to reflect costs to the consumers will be seriously weakened. The obvious impact of this practice will be an overstatement of beef prices paid by the consumer. The continuous use of USDA Choice grade beef as being representative of beef prices to consumers will represent a structural inflationary bias unless modified for the recent trends to lower-grade and lower-cost beef.

(b) In some metropolitan markets in which The Kroger Co. operates, the proportion of Thrifty beef (mostly Good grade beef) is either approaching or exceeding 50% of all beef cuts sold at retail. Since the promotional activity of recent weeks has concentrated heavily on Thrifty beef, the omission of Thrifty beef in the price statistics will tend to overstate both the estimates of beef prices paid by the consumer as well as the marketing margins available to the retailer. At this point in time, we do not know what a "normal" marketing margin on Thrifty beef should be. We know that the heavy promotional activity and heavy featuring of Thrifty beef results in less than the typical margins. In other words, the true marketing conditions, namely beef prices and price spreads, are substantially different than the picture portrayed by official USDA reports.

(c) The heavy emphasis on Thrifty beef because of its availability in the market should have a more than proportionate effect on the calculation of prices paid for beef by the consumer and should be reflected in the Consumer Price Index. Present BLS procedures do not permit the lower grade beef to be included in the CPI calculations, thus contributing to an inflationary bias in the retail food price calculations.

8. USDA WHOLESALE CARCASS TO RETAIL PRICE SPREAD (MARKETING MARGIN) VS. ACTUAL MARGIN

We have charted the USDA wholesale carcass to retail price spread and our gross margin. (See Figure 4.) The relative movements of both series are very similar. We do not deny that marketing margins have increased. To the extent that they, historically speaking, are a function of costs, they would have a tendency to reflect the spiraling costs of recent years. The gross margins have not advanced sufficiently to give us a satisfactory return on our beef operations. We do dispute the magnitude of the wholesale carcass to retail marketing margin as reported as well as the charges of inflexibility in following farm declines. At present, our marketing margin is approximately one-half of the USDA-calculated wholesale carcass to retail margin.

SUMMARY

Almost a decade ago the National Commission on Food Marketing verified the fact that retail beef prices, as reported by the USDA, were overstated by 7¢ per pound. Today the error of overstatement is approaching 20¢ per pound. We have presented facts on preceding pages indicating that the inaccuracy of USDA reporting is magnified by higher price levels and sharp price changes. Both of these conditions have characterized the beef markets in recent years. Thus it appears that the shift to current high beef prices as well as the increasing frequency of significant short-term price flucuations help explain most of the additional inaccuracy of the retail beef prices and the wholesale-retail price spread.

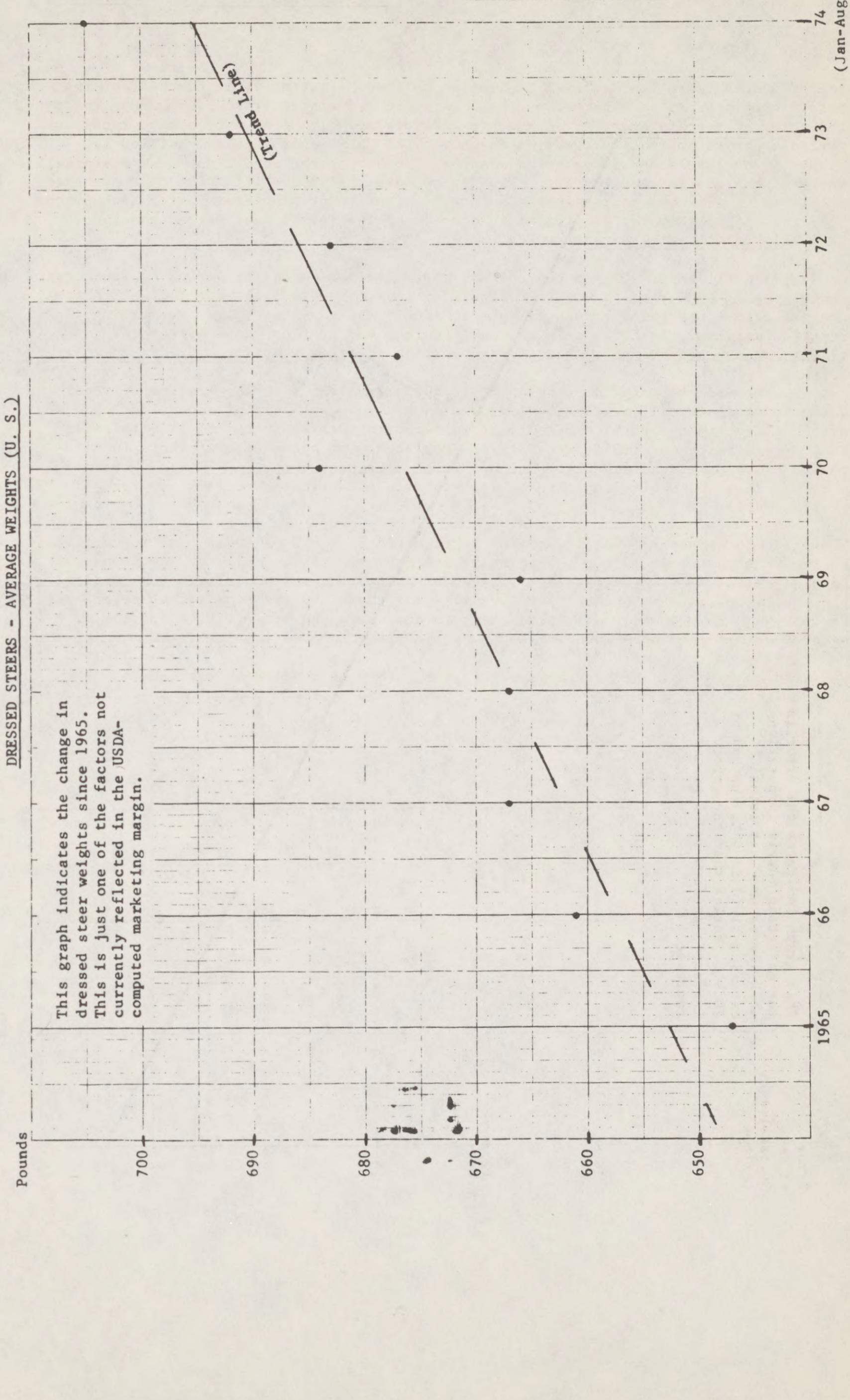
We have identified five major sources and several minor causes of errors or inaccurate procedures in USDA reporting of retail beef prices. No claim is made that all these factors affect the price spread calculations only one way--namely by overstating the reported margins. In fact, some of these sources may at times have offsetting effects or may become neutralized during periods of price stability.

From our entire preceding discussion it is quite apparent that the problem of reporting farm-wholesale-retail margins is very complex and requires further investigation. We are confident that part of the conflict in reporting market facts can be eliminated if USDA's efforts to simulate reality are replaced with actual market facts in all phases of the price-spread calculation. It is important that the USDA be concerned with the farm and wholesale costs as well as with the prices consumers pay for all types of beef.

The price spreads or marketing margins as reported by the USDA today lead to confusion by implying market and price conditions which may not exist at all, or may be present in a different form or intensity. Instead of USDA price spread information guiding the policy makers or the cattlemen they misguide them. By ignoring actual prices paid by consumers they grossly overstate costs to consumers and artificially inflate assumed retail earnings--when losses on beef are more common than profits.

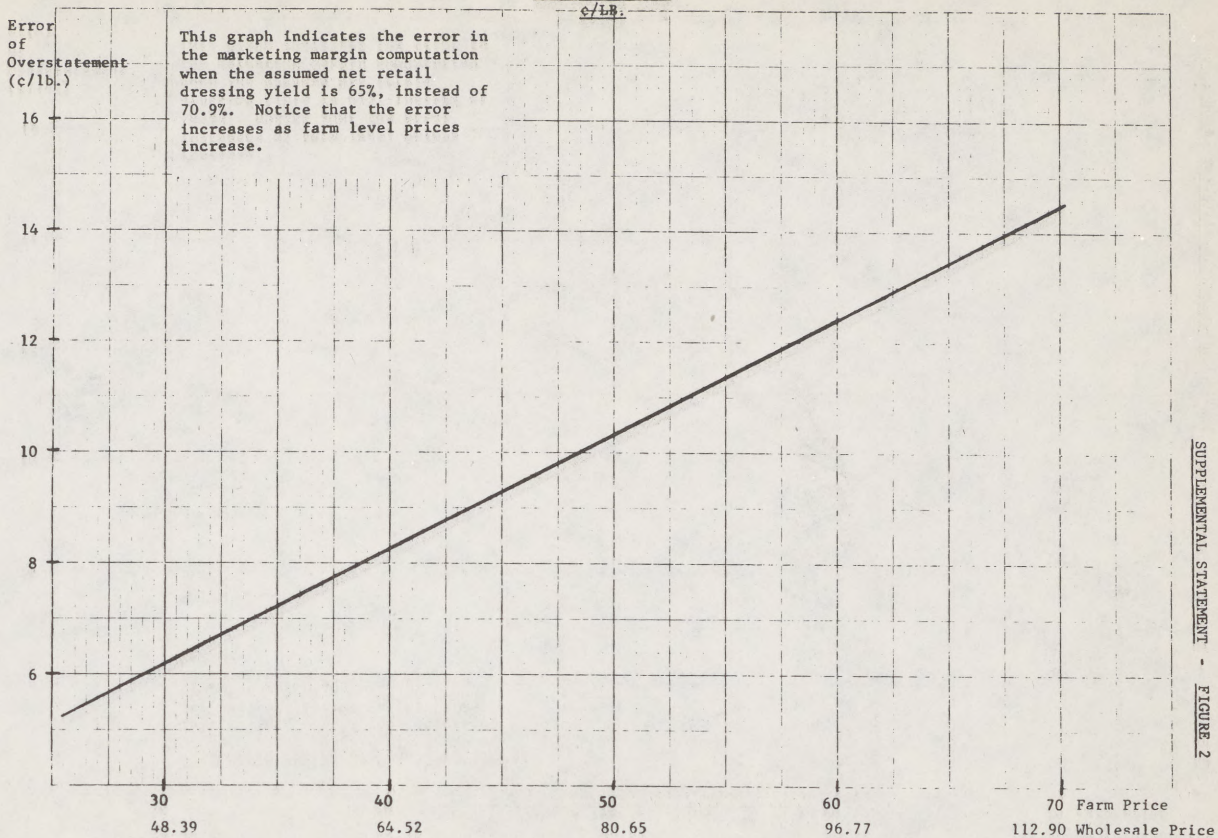
We stand on our facts and are prepared to share them in confidence with this Subcommittee.

SUPPLEMENTAL STATEMENT - FIGURE 1

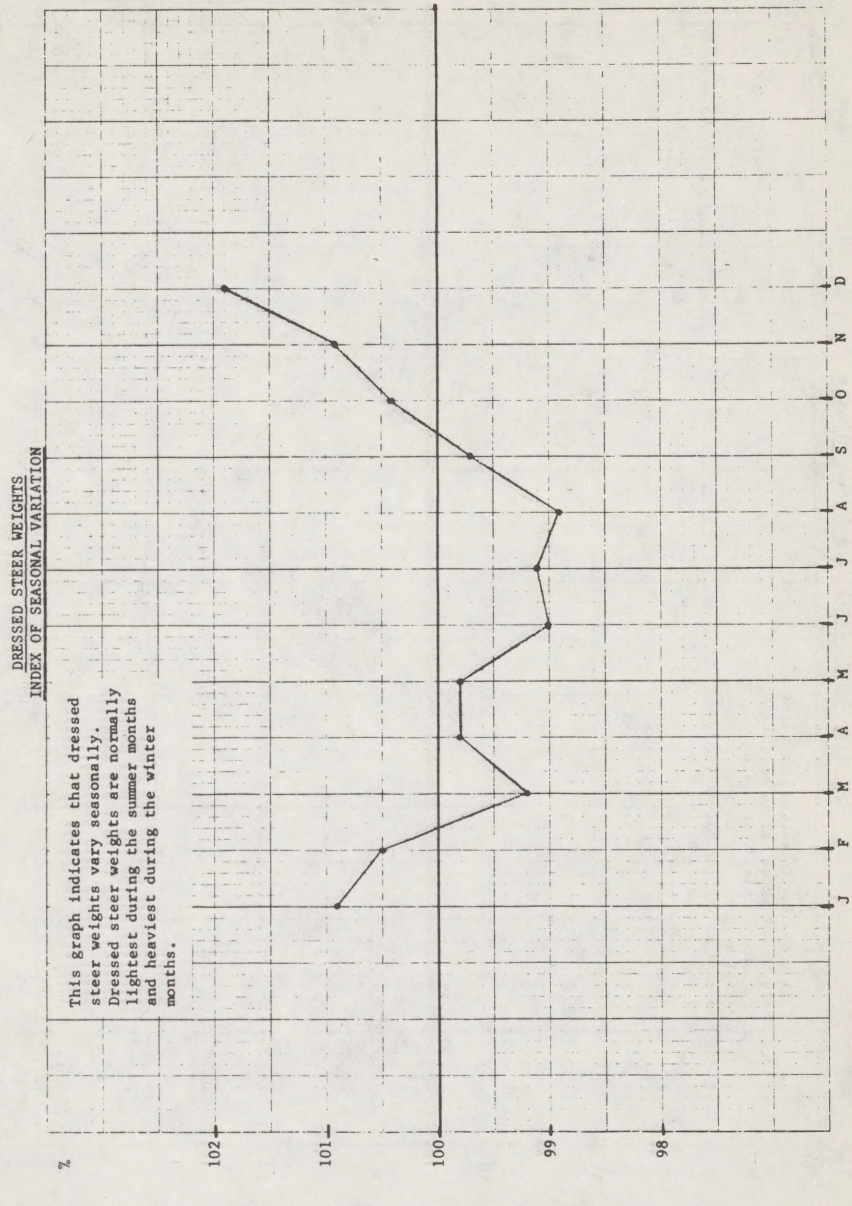


SUPPLEMENTAL STATEMENT - FIGURE 2

OVERSTATEMENT OF MARGIN
FOR CHOICE BEEF
¢/LB.



SUPPLEMENTAL STATEMENT - FIGURE 3



SUPPLEMENTAL STATEMENT - FIGURE 4

MARKETING MARGINS - WHOLESALE CARCASS TO RETAIL
(USDA vs. KROGER)