

EEC PRICE STRUCTURE CHANGE ANALYSIS

With a change in the EEC price structure as follows, what factors play a part in determining production and consumption shifts and what are the estimated magnitudes of these shifts?

Price changes:

Barley, from \$91.25/ton to \$96.00/ton.

Corn, from \$90.63/ton to \$99.00/ton.

Beef, from \$66.25/100 kg. to \$70.00/100 kg.

Pork, from (?) /100 kg. to \$73.50/100 kg. (increase).

1. The effect of these price changes taken together is to raise the price structure of livestock products and feed grains absolutely and relative to wheat. We can say this because beef and dairy products are jointly produced and the feed grain price will influence poultry meat and egg prices. Thus production changes are possible due to relative price changes and consumption changes are possible due both to the rise in price relative to the total economy and the relative shifts within the agriculture price structure.

2. Due to (1) the inflexible farm structure and, (2) a partially offsetting increase in the price of beef (a forage using enterprise) no shift is envisioned as between grain and forage or other crops. Thus the price changes will not affect total grain surface.

3. Some shift into barley from other feed grains, particularly oats, is to be expected. This will be less than one might first expect due to limits, at least in the short run, on the crop rotation pattern and the already rapid rate of decrease in oats and rye surface. But to the extent this shift occurs, projected feed grain production will increase by an amount equal to the difference in barley or corn yields and the yields of those crops they replace times the amount of surface shifted in this manner. Some shift from wheat to barley surface is probable, with a resulting increase in total feed grain production but with an offsetting decrease in wheat production.

4. The price of corn has increased not only relative to other grains but to barley price as well. So from a price point of view pressure exists to shift to corn production even over barley. In practice the direct effect on corn production will be very small because corn surface is already being expanded as rapidly as capital (irrigation in Italy and France) can be provided and varieties can be improved and adapted to soil and climatic conditions. Corn yields in the marginal areas are highly variable due to yearly weather fluctuations and the relatively small change in the barley-corn price ratio is not enough to bring about more than a negligible surface shift from barley to corn. Thus, no change in projected total feed grain production is seen from this source.

5. The increased price of feed grains will have some effect on production in the livestock sector, particularly in those livestock enterprises which must purchase their feed. But so will the price increase for beef and the newly established base price and intervention mechanism for pork. Since the feed grain price is a variable in the formula determining the sluice gate price and import levy for poultry meat and eggs, the sluice-gate price will increase. The poultry meat-feedgrain and egg-feedgrain price ratios will remain about constant so no significant shift in the production trend is probable for these products. The net effect of the barley, corn, and pork price increases is an *increase* in the pork-feed grain ratio. We can expect a surplus situation in pork production. The rate of feed grain use for cattle may decrease slightly. Thus the net feed grain utilization effect, *disregarding for the moment consumption considerations*, will be (1) no change in requirements for poultry meat and eggs, (2) increased requirements for pork, (3) partially offset by decreased requirements for cattle.

6. On the consumption side, a generally higher price will tend to slow the growth in consumption of meat. Since the price of pork will rise relative to poultry, some shift to consumption of poultry at the expense of pork can be envisioned. Beef demand will probably increase consistent with earlier projections since an upward beef price trend was assumed. Increased prices for pork and poultry were not assumed for earlier projections. Thus in net the beef deficit will remain largely unchanged from the projections. The potential pork surplus will be aggravated by the consumption effects of the price structure change. To the extent that demand shifts toward poultry, greater feed grain utilization in the sector will occur. (Modifying conclusion in point 5 above.)