

7. This leaves the effect which may well be the most important of all—the possible shift of wheat from export to feed channels. With an increase in feed grain prices relative to the wheat price, wheat becomes a stronger competitor in the feed grain market. Two main factors must be considered in production and one with respect to transportation. The transport question revolves around whether it now becomes more profitable to move wheat from wheat surplus areas (mainly the Paris Basin) to feed grain deficit areas (mainly Netherlands, Northern Germany, and the Po Valley) within the EEC than to import feed grain directly from third country sources. The production questions include (1) will the mix of grain produced and fed on farms include a higher portion of wheat and, (2) to what extent will the mix of feed grain moving in commercial channels shift toward a higher portion of wheat.

The feed mix from farm produced grain will probably not shift significantly since a high portion of wheat is already contained in farm produced feed grain mixes. (In Germany, only 60% of wheat produced in 1964/65 moved through commercial marketing channels—a high proportion of the remainder presumably was fed on the farm.) With respect to locally mixed commercial feed, some shifts in mix to a higher wheat portion may occur. If the change in price ratios is great enough to make movement of wheat to feed deficit areas more profitable than importing from third countries a substantial diversion of export wheat into feed uses can occur.

8. Analysis of effects. We see no change in projected feed grain production levels due to points 2 and 4 above. The effects discussed under point 3 above will result in an increase from the projections of not more than 1 million tons additional feed grain production by 1970, with next year's product shift from these sources being substantially less.

The consumption effects of point 6 coupled with the livestock production effects of point 5 will increase utilization of feed grain by probably at least an equal amount. Thus the effects of points 5 and 6 will cancel those of point 3 leaving the net feed grain production-utilization balance largely unchanged.

The unanswered question, and as indicated above the one of potentially greatest importance, is whether a major diversion of surplus wheat from export to feed use occurs. Some diversion can occur locally, but unless large quantities of surplus French wheat are denatured and shipped to Northern EEC and/or the Po Valley, the implications for U.S. exports should not be great. Whether this diversion will occur can be answered only through direct discussion with trade and EEC officials in Europe who buy grain and compute feed manufacturing costs related to surplus disposal. The price at which surplus wheat can be sold in world markets, as well as internal EEC prices and transport costs will influence the outcome.

If the pork support policy stands and is effective, we expect this to lead to substantial and burdensome pork surpluses. Further, a rise in pork prices causing a demand shift to poultry may create a short term spurt in poultry imports until domestic (EEC) production adjusts. Finally it is doubtful that the policy will stand without further changes because of the additional pressures created by the probable beef deficit and pork surplus.

Source material.—MSU-USDA Project on EEC. Reports by Sorenson, Hathaway, Rossmiller, Mangum, Epp, and Petit.

Senator MILLER. Thank you very much. My time is up.

Chairman BOGGS. Senator Javits?

Senator JAVITS. Gentlemen, I will not detain you very long. I would like to know, first, what is your opinion as to giving up the most-favored-nation principle in order to make the necessary deals with the less-developed countries?

We might start out with Professor Cooper.

Mr. COOPER. It depends on what you mean by giving MFN up in principle. I stated in my testimony that I think the best outcome for the United States, and indeed for the world, would be carrying on with the trade negotiations of the broad-gaged Kennedy Round type, that is, within the MFN context. Personally I would not object to the idea of so-called advance cuts in that context, that is, if we have be-