

direct costs of complying with the rule. These are the availability of substitute products not covered by the rule and the relative competitiveness of the affected suppliers with respect to other sectors of the U.S and world economies.

Although the increases in operating costs are the initial drivers behind the changes in consumption and production patterns resulting from this rule, they do

not, as can be seen by examining Table 9, determine which commodity sector will be most affected. Table 9 contains the percentage changes in prices, production, exports, and imports for the three main segments of the marketing chain by covered commodity. The results are reported for the low and high end of the estimated range of increases in incremental costs. Table 9 also

presents results for chicken, which is not a covered commodity but is a substitute for beef, lamb, and pork and as a result could be significantly affected by changes in consumption of these products. As mentioned previously, in the ERS CGE model peanuts are included with oilseed products. As a result they are not included in this analysis.

TABLE 9.—ESTIMATED IMPACT OF PROPOSED RULE ON U.S. PRODUCTION, PRICES AND TRADE OF IMPACTED SECTORS <sup>1</sup>

	Price	Production	Exports	Imports
	Percent change from the base year			
Low Incremental Cost:				
Fruits and Vegetables .....	0.11	-0.15	-0.17	-0.20
Cattle and Sheep .....	0.05	-0.14	-0.11	-0.06
Broilers .....	0.01	0.01	-0.00	0.02
Hogs .....	0.05	-0.07	-0.05	0.01
Beef and Lamb .....	0.07	-0.15	-0.05	-0.10
Chicken .....	0.01	0.04	0.01	0.03
Pork .....	0.06	-0.17	-0.09	-0.12
Fish .....	0.15	-0.26	-0.12	0.01
High Incremental Cost:				
Fruits and Vegetables .....	0.43	-0.49	-0.62	-0.26
Cattle and Sheep .....	0.24	-0.33	-0.37	-0.08
Broilers .....	0.02	0.03	-0.00	0.03
Hogs .....	0.07	-0.15	-0.16	-0.03
Beef and Lamb .....	0.27	-0.34	-0.40	-0.25
Chicken .....	0.11	0.07	-0.07	0.16
Pork .....	0.26	-0.39	-0.48	-0.08
Fish .....	0.64	-0.92	-1.04	0.22

Fish and fruit and vegetables are affected relatively more than the other covered commodities even though the increases in incremental costs summed over their entire supply chains are lower than the sum of the increases in incremental costs for the supply chains of the other covered commodities. This is because the demands for fruits and vegetables and fish are more responsive to changes in prices than are the demands for the other covered commodities.

Demand for U.S. fish production is particularly sensitive to increases in prices because in the model, U.S. fish suppliers have less of a competitive advantage over their foreign counterparts than do the U.S. suppliers of the other covered commodities. As a result, fish imports increase as a result of the estimated cost increases, causing U.S. production to fall more (one percent) than it would if imports of fish

had declined similar to imports of all the other covered commodities.

U.S. poultry suppliers are also affected by the proposed rule even though they are not directly covered by the rule. This is because consumers will substitute chicken for beef and pork when their prices increase relative to the price of chicken. Consequently, the increases in pork and beef prices cause consumer demand to shift towards chicken. The resulting increase in demand for chicken causes the price of both chicken and broilers and ultimately their production to increase.

To put these impacts in more meaningful terms, the percentage changes reported in Table 9 were converted into changes in current prices and quantities produced, imported, and exported (Table 10). The base values used for calculating these changes are the projected values for 2003 as reported in the USDA Agricultural Baseline Projections to 2012 (Ref. 38), except for

fish, which comes from Fisheries of the United States, 2001 (Ref. 23). The base values in Table 10 vary from those reported in Table 4 because they are derived from projected levels reported in the USDA Agricultural Baseline for 2003, while values in Table 4 represent actual reported values for 2002 as compiled by the USDA's National Agricultural Statistical Service. Baseline values were used to accommodate the structure of the model.

Increases in prices for all covered commodities are small, less than one cent per pound. Production changes are similarly small, less than 100 million pounds for all covered commodities except fresh fruit and vegetables, which under the high cost "shock" declines by over a billion pounds. The declines in production of cattle and hogs mirroring the declines in beef and pork production fall by less than 200,000 head.

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