



FOOD MARKETING POLICY CENTER

NEWSLETTER

Department of Agricultural and Resource Economics
College of Agriculture and Natural Resources
University of Connecticut

Mission

The Food Marketing Policy Center conducts research on food and agricultural marketing and related policy questions. It facilitates research by maintaining large scale data bases and a visiting research scholars program. The general intent is to provide information that can contribute to improved performance of the food production and marketing system. Key users include farmer and consumer organizations, agribusiness firms, public agencies, state legislatures, and the U.S. Congress.

Tel. (860) 486-1927
FAX (860) 486-2461

fmpc@uconn.edu
http://www.fmpc.uconn.edu

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Newsletter Editorial:

Managing Risk: Lessons from the BSE Experience

by Julie A. Caswell

The discovery of a cow that tested positive for Bovine Spongiform Encephalopathy (BSE), popularly known as mad cow disease, in the state of Washington in late December 2003 has raised many questions about the adequacy of quality control systems in the United States. It has led to the temporary loss of overseas markets for US beef products due to import bans, although the demand response among domestic consumers has been muted. It has also led to the institution of a broad set of new regulatory measures in the feed, livestock, and food sectors. What does the BSE experience say about the effectiveness of risk management systems in the United States?

Effective risk management requires the combination of risk assessment information with analysis of the benefits and costs of actions that could be taken to reduce risk. Risk assessment applies quantitative models and, frequently, qualitative judgment to characterize risk. In a report published in 2001 and revised in 2003, for example, the Harvard Center for Risk Analysis assessed, at the request of the U.S. Department of Agriculture, the potential for BSE to spread to animals or humans should it be introduced into the United States. It concluded that current measures taken by industry and government, if fully complied with, made the US robust against such spread.

Risk assessment is a crucial input to risk management but decisions ultimately turn not only on how likely and important a risk is but also on how costly it is to control compared to the benefits of doing so. When a BSE case appears in a country, it is not the risk assessment that shifts dramatically but the calculus of the costs and benefits of stricter control.

The United Kingdom was the first to experience the full impact of BSE and the slowest to react with industry practices and government regulations. Other countries learned from this experience and took preventative measures but in country after country full adoption of systems to prevent BSE, trace animals and beef products, and protect the food supply were only triggered by the appearance of a first BSE case. In this respect, the US experience of a rush to adopt new regulatory measures after the first cow was discovered is typical.

Typical but not reassuring. The slowness of US government and industry to adopt full preventative and traceability standards, even after close observance of the devastating impact of a BSE on our Canadian neighbors, is a risk management failure.

The costs of improved quality control systems are significant. The costs of not implementing those systems are also significant, including disruption of international trade and, in many countries, domestic demand as well. The risk management failure stems from giving too much credence to the known implementation costs and not enough to the costs of not implementing measures.

The appearance of the first BSE case radically shifts the calculus, with the ensuing rush to issue a raft of new regulations. In the US, the newly issued regulations are generally measures that have been widely discussed but not put in place due to opposition based on their implementation costs. Although the underlying cost estimates have not changed, the single positive case broke the logjam

on regulatory response. This is management by crisis rather than effective risk management.

The risk management lesson from the US experience with BSE is that government and industry decision-making must take more comprehensive account of the costs and benefits of risk reduction activities, particularly of the more elusive costs of not taking adequate action. This is particularly important as the government, industry, and consumer representatives continue the long process of hammering out the provisions and enforcement of new quality control systems.

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Food Marketing Policy Center Staff and Researchers—UConn and UMass

Ronald W. Cotterill, Director	(860) 486-2742
Ronald.Cotterill@uconn.edu	
Julie A. Caswell (UMass)	(413) 545-5735
Caswell@resecon.umass.edu	
Donghun Kim (Asst. Professor)	(860) 486-2826
Donghun.Kim@uconn.edu	
Bruce A. Larson	(860) 486-1923
Blarson@canr.uconn.edu	
Nathalie Lavoie (UMass)	(413) 545-5713
Lavoie@resecon.umass.edu	
Qihong Liu (UMass)	(413) 545-6650
qiliu@resecon.umass.edu	
Rigoberto A. Lopez	(860) 486-1921
RLopez@canr.uconn.edu	
Richard Rogers (UMass)	(413) 545-5741
rogers@resecon.umass.edu	
Adam N. Rabinowitz (Res. Assistant)	(860) 486-2823
Arabinow@canr.cag.uconn.edu	
Ville Aalto-Setälä (Visiting Scholar)	(860) 486-0111
vsetala@canr.uconn.edu	
Lorraine Knight (Secretary)	(860) 486-1927
lknight@canr.uconn.edu	

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Cooperating Research Personnel at Other Universities

Adam David Rennhoff, Ph.D. candidate from the University of Virginia, (Dept. of Economics).

Tirtha Dhar, Assistant Professor (Marketing), Sauder School of Business, University of British Columbia, Vancouver, BC, Canada.

Avi Goldfarb, Assistant Professor (Marketing), University of Toronto School of Business, Canada.

Christian Rojas, Ph.D. student, Dept. of Economics/Agricultural Economics, Virginia Tech.

Bart Bronnenberg, Associate Professor of Marketing, The Anderson School at UCLA.

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Personnel Changes

The Food Marketing Policy Center is happy to introduce Dr. Qihong Liu, who joined the Center as a postdoctoral researcher in September. Dr. Liu received his Ph.D. in Economics from the State University of New York at Stony Brook in August 2003. He has extensive background in industrial organization economics and did dissertation research on price discrimination. Dr. Liu's appointment is for two years and he is located in the Center at the University of Massachusetts.

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Food Marketing Policy Center Graduate Assistantships Available, Fall 2004

The Food Marketing Policy Center in the Department of Agricultural and Resource Economics has graduate assistantships available at the Ph.D. level. Students with interest in organization of food industries and one or more of the following: demand and price transmission analysis, comparative analysis of U.S. and European foods systems, cooperatives, industrial

organization economics, or antitrust policy are encouraged to apply. Support will be for four years. For further information, please contact Ronald W. Cotterill, Director, Food Marketing Policy Center, Storrs, CT 06269-4021. Tel. (860) 486-2742, Fax (860) 486-2461, or Email: Ronald.Cotterill@uconn.edu.

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AGRIBUSINESS: An International Journal update by R. W. Cotterill, Editor

Agribusiness, and more than a dozen other economic journals, are now available on line to subscribers at (www.interscience.wiley.com). The journal is also indexed in Econlit.

Instructions for manuscript submissions are available by email: (FMPC@UCONN.EDU). Manuscripts are submitted electronically to the same address. Articles appearing in Issues No. 3 and 4, 2003 are as follows:

***Agribusiness* 19(3) Summer 2003 Special Issue: Distribution of Benefits and Costs of Commodity Checkoff Programs**

Introductory Remarks by Harry M. Kaiser

"Distributional Issues in Check-Off Funded Programs" by Julian M. Alston, John W. Freebairn, and Jennifer S. James.

"Distributional Effects of Generic Dairy Advertising Throughout the Marketing Channel" by Harry M. Kaiser and Todd M. Schmit.

"Distribution of Gains from Research and Promotion in the Presence of Market Power" by Michael K. Wohlgenant and Nicholas E. Piggott.

"Free-Rider Effects of Generic Advertising: The Case of Salmon" by Henry Kinnucan and Øystein Myrland.

“Distributional Effects of Commodity Promotion Programs by Type of Producer” by Chanjin Chung and Harry M. Kaiser.

“The Incidence of Gains and Taxes Associated with R&D and Promotion in the Australian Beef Industry” by Xueyan Zhao, John Mullen, Garry Griffith, Roley Piggott, and William Griffiths.

“Evaluating the Effect of Generic Advertising and Food Health Information within a Meat Demand System” by Brenda L. Boetel and Donald J. Liu.

“Who Bears the Burden and Who Receives the Gain?—The Case of GWRDC R&D Investments in the Australian Grape and Wine Industry” by Xueyan Zhao.

“Are Uniform Assessments for Generic Advertising Optimal if Products are Differentiated?” by John M. Crespi and Stéphan Marette.

“Measures of Precision for Estimated Welfare Effects for Producers from Generic Advertising” by Nicholas E. Piggott.

“Competing Supplies of Olive Oil in the German Market: An Application of Multinomial Logit Models” by Ronald W. Ward, Julian Briz, and Isabel de Felipe.

Book Review by Jean-Paul Chavas
American Agriculture in the Twentieth Century: How It Flourished and What It Cost by L. Bruce Gardner.

***Agribusiness* 19(4) Autumn 2003**

“The Reconfiguration of Post-Soviet Food Industries: Evidence from Ukraine and Moldova” by Matthew Gorton, John White, Svetlana Chernyshova, Alexander Skripnik, Tatiana Vinichenko, Mikhail Dumitrasco, and Galina Soltan.

“Mean Spillover Effects in Agricultural Prices: The Case of Greece” by Nicholas Apergis and Anthony Rezitis.

“ISO 14001 EMS Standard Registration Decisions Among Canadian Organizations” by Emmanuel K. Yiridoe, J. Stephen Clark, Geb E. Marette, Robert Gordon, and Peter Duinker.

“Ocean Liner Shipping: Organizational and Contractual Response by Agribusiness Shippers to Regulatory Change” by Hayden G. Stewart and Fred S. Inaba.

“StarLink: Impacts on the U.S. Corn Market and World Trade” by William Lin, Gregory K. Price, and Edward W. Allen.

“Captive Supplies and the Spot Market Price of Fed Cattle: The Plant-Level Relationship” by John R. Schroeter and Azzeddine Azzam.

“Forecast Evaluations in Meat Demand Analysis” by Zijun Wang and David A. Bessler.

“Targeting Tourists with State Branding Programs” by Paul M. Patterson, Timothy J. Burkink, Rozlyn S. Lipsey, Jason Lipsey, Richard W. Roth, and Mary Kay Martin.

Book Review by Calum G. Turvey
Lords of the Harvest: Biotech, Big Money, and the Future of Food, by Daniel Charles.

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Activity Report

Ronald W. Cotterill
(*Ag. Econ., University of Connecticut*)

Ron attended the AAEEA Meetings in Montreal, July 27-30. He delivered a paper co-authored with Tirtha Dhar and Jean-Paul Chavas, and another with Rigoberto Lopez, and Benaissa Chidmi, and spoke at a symposium on antitrust policy in food industries.

On August 19, 2003, Ron delivered a paper in Harrisburg, PA at the International Association of Milk Control Agencies 67th Annual Conference.

On August 24, 2003, Ron delivered a paper at the annual conference of Northeast Federal Milk Market Order, Newport, Rhode Island.

On September 23, 2003, Ron attended a hearing on the pricing of milk products at the Legislative Office Building in Concord, New Hampshire.

On October 30, 2003, Ron delivered oral and written testimony on milk market channel structure to the United States Senate Committee on the Judiciary, Washington D.C.

Ron organized and spoke at the Northeast Dairy Policy and Prices Summit Meeting: November 17-18, 2003. Over 100 persons attended. Delivered papers are on our website.

On December 1, 2003, Ron did an interview about milk pricing on Vermont Public Radio.

On December 12, 2003, Ron was an invited guest speaker on dairy prices, at three Congressional town meetings in Burlington, Vermont hosted by Congressman Bernie Sanders.

Ville Aalto-Setälä

(Visiting Scholar, National Consumer Research Centre, Helsinki, Finland)

Ville is working with Emilio Pagoulatos on a project titled, “The Sources of Price Dispersion in the European Food Market.” The study tries to find reasons for price differences utilizing Eurostat’s price data.

Ville also works with Markus Halonen (Autodata, Finland) and Anu Raijas (University of Helsinki) in projects considering price knowledge of consumers and rigidity of single prices. These projects utilize data sets from huge natural experiment—the changeover of Euro.

Ville presented a paper titled, “Price Dispersion and Search Costs in Grocery Retailing” at the annual conference of European Association of Research in Industrial Economics.

Julie Caswell

(Ag. Econ. University of Massachusetts)

Julie Caswell made an invited presentation on *From Lettuce to Caesar Salad—Traceability Issues* in a workshop on Marketing and Economics of Labeling the Intangible Attributes for Horticultural Products: Food Certification and Traceability, Annual Conference of the American Society for Horticultural Science, Providence, Rhode Island, October 2003.

Julie Caswell was an invited participant in a national workshop organized by the U.S. Food and Drug Administration on *Exploring the Link Between Food Labeling and Weight Management*, Bethesda, Maryland, November 20, 2003.

Donghun Kim

(Assistant Professor in Residence, FMPC)

Donghun continues working with Robert Masson (Cornell University) and Kap-Young Jeong (Yonsei University). Their paper, “Business Cycle, Export Cycle, Price-Cost Margin and Concentration,” was presented at the department seminar of Yonsei University.

Donghun works with Ron Cotterill to develop a dynamic structural model for the Dallas milk market. Their model illustrates the cyclical behavior of firm conduct and bias in measuring market power in a unified manner. It demonstrates that measuring market power using a static model can be biased if firms’ dynamic interactions are not taken into account.

Bruce Larson*(Ag. Econ., University of Connecticut)*

In review at the *Journal of Environmental Economics and Management* is a paper by Scatasta, S. and B. A. Larson entitled, "The Impacts of Environmental Product Standards on Trade: An Empirical Analysis of the German Packaging Ordinance."

Also, in review at the *Journal of Policy Modeling* is a paper by Larson, B.A. and S. Scatasta entitled, "Modeling the Impacts of Environmental Regulations on Agricultural Imports."

Nathalie Lavoie*(Ag. Econ. University of Massachusetts)*

Nathalie Lavoie and Dan Lass attended The Northeast Dairy Policy and Prices Summit Meeting on November 17, 2003 at the University of Connecticut.

Nathalie presented, "The Impact of Reforming Wheat Importing State-Trading Enterprises on the Quality of Wheat Imported" at the following conferences and invited seminars: Department of Environmental and Natural Resource Economics, University of Rhode Island, Kingston, RI, October 22, 2003; Dept. of Agricultural Economics, Kansas State University, Manhattan, KS, September 12, 2003; The American Agricultural Economics Association Annual Meeting, Montreal, PQ, Canada, July 27-30, 2003; and the International Conference on "Agriculture and Policy Reform and the WTO: Where Are We Heading?" Capri, Italy, June 23-26, 2003.

Nathalie also spoke on the "Use of the Personal Response System (PRS) in a Large-Lecture Microeconomics Course." The presentation was part of the symposium "Teaching with Technology to Engage and Enhance Learning," Teaching, Learning and Communications Section, at the Annual Meeting of the American Agricultural Economics Association, Montreal, PQ, Canada, July 27-30, 2003.

Dan Lass and Nathalie Lavoie are studying the pricing decisions of farmers involved in Community Supported Agriculture (CSA). CSA farmers forward contract with consumers (shareholders) during the winter months selling the right to come to the farm during the season to pick up a sack of produce.

Nathalie Lavoie and Qihong Liu are working on the impact of reforming wheat importing state-trading enterprises on the quality of wheat imported. They are also working on a pricing-to-market paper.

Rigoberto Lopez*(Ag. Econ., University of Connecticut)*

Rigoberto has returned from the Fall 2003 sabbatical leave at Yale University. He has continued to work with Ron Cotterill and Benaissa Chidmi on milk pricing issues. Benaissa is currently conducting his dissertation on vertical relationships in the breakfast cereal industry under the direction of Rigoberto. He will also resume work on retail configuration and food prices this summer. He has plans to work with Azzeddine Azzam on labor issues facing the meat packing industry.

Rigoberto presented a seminar entitled, "Private Labels, Retail Configuration, and Fluid Milk Prices" both at Rutgers University and the University of Nebraska, October 24 and December 12, 2003, respectively.

Maria A. Gonzalez and Rigoberto Lopez attended the American Agricultural Economics Association Meetings, July 27-30, 2003 in Montreal, Canada and made a presentation on "Efficiency of Market-Based Land Reform in Colombia: A DEA Approach."

Benaissa Chidmi, Rigoberto Lopez, and Ron Cotterill presented the paper, "Retail Market Power in the Boston Fluid Milk Market" at the American Agricultural Economics Association Meetings, July 27-30, 2003, Montreal Canada.

Richard Rogers*(Res. Econ., University of Massachusetts)*

Rich has been appointed special assistant to the UMass Chancellor for undergraduate teaching and is on leave from the department and Policy Center.

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Data Corner**Recent acquisitions include:**

Trade Dimensions *Market Scope. The Desktop Guide to Supermarket Share* 2004.

Trade Dimensions *High-Volume Retailers—The Alternate Channel Sourcebook, 2004* (formerly the *Directory of Mass Merchandisers*).

The Food Marketing Policy Center has extensive holdings of Competitive Media Reporting, Leading National Advertisers, national advertising data, 1987-1997. Contact the Policy Center for details on specific holdings.

The Food Marketing Policy Center subscribes to the following trade journals; the current holdings are listed for each publication:

Promo, Promotion Marketing Worldwide, November 1997-current.

Progressive Grocer, The Publication for Strategic Management, November 1987-current.

Sales and Marketing Management, January, 1989-current.

Supermarket Business, 1996-current.

Supermarket News, The Weekly Newspaper of Food Retailing, 1980-current.

Food Institute Report, 1984, 1985, 1988-current.

Private Label, The Magazine for the Brands. 1993-current.

Cooperative Grocer, For Retailers and Cooperators. 1994-current.

Cheese Reporter, Serving the World's Dairy Industry Weekly, 2000-current.

The Griffin Report of Food Marketing, 1991-current.

Hoard's Dairyman—The National Dairy Farm Magazine. February 2003-current.

The Milkweed, The Farmer's Milk Marketing Report, October 2000-current.

Contact Adam N. Rabinowitz (860) 486-2823 for a complete listing of data and reference works available.

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Food Marketing Policy Center Publications Catalog

We have updated the list of the publications that are available through the Center. Call (860) 486-1927, write for a copy, or print it from our Home Page: <http://www.fmpc.uconn.edu>

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Recent Publications and Papers

Aalto-Setala, Ville and Anu Raijas (2003). "Actual Market Price and Consumer Price Knowledge," *Journal of Product and Brand Management*, Vol. 12(3).

Aalto-Setala, Ville and Anu Raijas (2003). "Consumer Price Knowledge Before and After the Euro Changeover," *International Journal of Consumer Studies*, Vol. 27(3).

Aalto-Setälä, Ville (ed.) (2003): Consumers, Markets and the Euro, National Consumer Research Centre, Finland.

Aalto-Setälä, Ville. "Attractive Prices in Grocery and Automobile Markets—Why is Such Pricing Used?" *Journal of Retailing and Consumer Services*, Harry Timmermans, editor, Eindhoven, The Netherlands. Forthcoming.

Buchweitz, Marcia R.D., Elisabete Salay, Julie A. Caswell, and Miguel J. Bacic. In Press. Implementation and Costs of Good Manufacturing Practices Norms and Hazard Analysis and Critical Control Points Systems in Foodservices in the Campinas Region, SP, Brazil. *Foodservice Research International*.

Caswell, Julie A., Yumei Ning, Fang Liu, and Eliza M. Mojduszka. 2003. The Impact of New Labeling Regulations on the Use of Voluntary Nutrient Content and Health Claims by Food Manufacturers. *Journal of Public Policy and Marketing* 22(2):147-158

Caswell, Julie A. Quality Assurance, Information Tracking, and Consumer Labeling. Invited paper at the *International Workshop on Marine-Based Public Health Risk*, International Marine Center, Oristano, Sardinia, Italy, July 2003.

Caswell, Julie A. *Food Safety: What is Economists' Value Added?* Invited Keynote Presentation to the Western Coordinating Committee on Agribusiness (WCC-72), Las Vegas, June 2003. <https://webct.ufl.edu:9030/public/WCC72/index.html>

Cotterill, Ronald W. "Fluid Milk Market Channel Pricing: Monopolistic Pricing by Retailers Hurts Processors, Farmers, Consumers, and Federal Market Order Pricing." University of Connecticut Food Marketing Policy Issue Paper No. 40, September 2003.

Cotterill, Ronald W., Adam N. Rabinowitz, and Li Tian. "Milk Market Channel Structure: Its Impact on Farmers and Consumers, and the Inadequacies of

Antitrust Enforcement as a Foundation for Dairy Policies: Evidence from the Northeast Dairy Industry." Testimony before the United States Senate Committee on the Judiciary. October 30, 2003.

Cotterill, Ronald W. "Milk Market Channel Structure: Its Impact on Farmers and Consumers, and the Inadequacies of Antitrust Enforcement as a Foundation for Dairy Policies: Evidence from the Northeast Dairy Industry." Oral Testimony before the United States Senate Committee on the Judiciary. October 30, 2003.

Cotterill, Ronald W., Adam N. Rabinowitz and Matthew Schwane. "Testimony on the Massachusetts Milk Price Situation and the Proposed Massachusetts Milk Price Gouging Law." Testimony before the Massachusetts Legislature Committee on the Environment. September 4, 2003.

Cotterill, Ronald W. Experiment Station Report, "Dairy Farming: A Connecticut Perspective." In *21st Century Connecticut Agriculture and Resources*, Linda K. Lee, ed., October 2003, pp. 35-52.

Fearne, Andrew, Marian Garcia, Michael Bourlakis, Mary Brenan, Julie A. Caswell, Neal Hooker, and Spencer Hensen. In Press. *Review of the Economics of Food Safety and Food Standards*. Research Report, Centre for Food Chain Research, Imperial College, London. Prepared for the UK Food Standards Agency under Contract RRD10/D03/A.

Fouayzi, Hassan. 2003. *Motivations for Implementing Quality Management Systems: A Case Study of Fresh-Cut Produce*. M.S. thesis, 103 pp.

Lavoie, Nathalie. "The Impact of Reforming Wheat Importing State-Trading Enterprises on the Quality of Wheat Imported." Working Paper No. 12, University of Massachusetts, Amherst, MA. December 2003.

Lopez, Rigoberto A. Experiment Station Report, "The Connecticut Green Industry." In *21st Century Connecticut Agriculture and Resources*, Linda K. Lee, ed., October 2003, pp. 50-70.

Nevo, Aviv. "New Products, Quality Changes and Welfare Measures Computed from Estimated Demand Systems." *The Review of Economics and Statistics* 85(2), 266-275, 2003.

Rabinowitz, Adam N., Matthew Schwane, and Ronald W. Cotterill. "Retail Milk Prices in New England, New York, and Seattle: An Unresolved Issue." September 4, 2003.

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Food Marketing Policy Center
Agricultural and Resource Economics
U-21, 1376 Storrs Road
Storrs, CT 06269-4021

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