



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 within the land grant university system by organizing meetings and conferences, by maintaining large scale data bases and by distributing publications. 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.

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Nov. 1998 (Vol. 6 No.1)

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Newsmaker Editorial: Joseph D. Coffey, Southern States Cooperative, Inc., Richmond, VA

Editor's Note: This piece and a response by John Helmuth will appear in the Forum section of the first issue of the new format *Agribusiness* (Issue No. 1, 1999).

A Plea for Economic Research to Improve Market Efficiency

It is ironic that the market system is guiding more agricultural resource use today than it ever has in the history of mankind, yet agricultural economists appear to be devoting less time and energy to improving its efficiency and effectiveness. (I believe that the earmarking of 25% of regional agricultural research funds for marketing has been removed, lessening further the incentive for marketing research.) Further, judged by the discussions at gatherings of ag economists I attend, one would think that vertical integration and industrialization of agriculture are inevitable in the march to progress and that the fate of the independent farmer is dim if not doomed.

The death of the independent farmer argument goes like this: Integration worked for broilers and turkeys. It is fast spreading in hogs. Beef and dairy are next. Value-added crops are a chinch for contracting. Despite the obituary, I fervently hope and believe that the independent farmer can survive and thrive. I offer these thoughts to spur ag economists to devote more attention to improving the efficiency of our market system. Until recently, almost every government on the planet regulated farm commodity prices through a convoluted and counter-productive panoply of price, trade and production controls. Farm policy was fundamentally changed when 1996 Freedom-to-Farm (and fail!) bill began the transition to less government influence over farm commodity prices and a greater influence of the market place. Most other countries are also

downsizing commodity programs. The central plans of communism are now consigned to the dustbins of history.

I welcome the triumph of the market system over government manipulation. However, if we are to rely, as I believe we should, upon the market, it is crucial that markets be competitive. This means that market price must not be manipulated by a handful of companies and that timely and accurate market price information must be available to all.

At the same time that the privatization policies of U.S. and other governments are giving added impetus to the marketplace, changing technologies and multiplying consumer demands are making the roles of the marketplace much more complex. We have developed an efficient market for number 2 yellow shelled corn. The USDA publishes corn supply and demand estimates and prices. The future's contract on Chicago provides corn producers and users a market mechanism to discover prices and manage their risks. But what about high corn oil? What is the price today of 5% high oil corn and how does it differ from 7% high oil corn prices? What is the price of organic food grade soybeans? If there is no readily available market price information and market access, how will farmers know whether they should produce it or not. Even if farmers are willing to produce, will their lender loan them money? Probably not unless they have a contract in hand. Lenders (i.e. risk) as much as technology are propelling pork integration. If farmers do not have access to a market, they will be forced into a contractual system like we now have in poultry and is expanding rapidly in swine. I am not opposed to marketing or production contracts, but I do not want neglect of the market system to force agriculture to contracts and integration.

While I do not want the government meddling with the prices, I do want to see the government strengthen the competitive market system. Consider the inefficiencies of the average pricing that we use today where we pay the same price per pound for a pen of co-mingled feeder calves, even though there is a wide variation in their quality and performance potential. This sends the wrong signal to the producers. Producers of the high quality calves are underpaid and producers of low quality calves are overpaid. The signals subsidize the bad and penalize the good. This is the opposite signal that we would like to have it send.

The good producer will go around the local marketing system and ship directly. This leaves the local market as a dumping ground for poor quality livestock and for those who do not have sufficient numbers to be able to sell directly. The volume marketed through the local market becomes so thin it does not attract an adequate number of buyers. The market is no longer competitive. The smaller producer, who has no alternative but to sell on this local market, does not receive the proper price even for the below average quality animal he produces, nor does he really have access to the high value market.

The efficiency of the market system or lack thereof has tremendous implications for the future structure of agriculture. If the independent producer does not have access to a competitive market price, nor a method to manage his price risk, he will be forced into a contractual relationship. The "producer" does not own the animals, does not own the crop, he simply rents out his land, labor and buildings and produces at a piece rate for the large integrated company.

Industrialization of agriculture is not inevitable nor is it inherently more efficient than one based upon the independent

producers and a decentralized market system. Indeed, the leading edge trend in modern business is away from integration and more toward coordination. The integrated computer company such as Apple is not doing nearly as well as the specialized company such as Dell and Intel. Leading corporations, ranging from Sara Lee to General Motors, are outsourcing or spinning-off non-strategic operations and buying rather than making. Modern computer technology is reducing the market transactions costs. Government regulations are increasing the internal transaction costs. The ultimate is everyone becoming a profit center. There is an urgent need for investments in creating efficient marketing systems for the 21st century agriculture. Ag economists should give high priority to research on:

1. Developing methods to objectively, accurately, and efficiently determine the qualities and values of commodities.
2. Exploring the feasibility of electronic markets. Internet technology this is much more feasible today than it was just 2 or 3 years ago and will clearly be much more feasible in the future as computers blend with televisions so that people can participate in auctions and view live pictures of the cattle being auctioned along with all of their performance data.
3. Electronically bar coding plants and animals so the producer can trace its destination and subsequent performance and the consumer can trace its origin and identity.
4. Develop ways producers of the new value-added commodities can make their risks and forward sell them and not be forced to contract. According to

USDA surveys, one-third of farm products are either produced by or marketed by contract.

5. Closely monitor our market system to make sure that prices are being determined on a competitive basis and the markets are not being manipulated. Design policy guidelines to make markets more competitive.
6. Develop grades and standards that are flexible and relevant to 21st Century agriculture and are not based upon the #2 yellow corn mentality of the past. Markets should be based upon the value of the product, not upon its superficial features such as the color of the hide.
7. Create ways that producers can retain ownership and capture more of the value added and not be relegated to receiving the generic farm gate average price. Of course, as an employee of a farmer cooperative, I believe that the new generation co-ops can extend farmers' ownership and control.
8. Develop new research protocols so that we can get at these important questions through joint research with industry. Just as precision agriculture research can't be done in a flower pot or a university plot, much of this marketing research cannot be done in a research lab, but must be done out in the marketplace with point-of-sale data.

I am confident that if the American producers receive the proper price signal, they will respond to it. I trust the same is true for ag economists.

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AGRIBUSINESS: An International Journal UPDATE

Agribusiness is well underway. Articles appearing in Issues No. 5 and 6 1998, the first issues under the direction of the new editorial board with Ron as editor-in-chief, are:

“Market Impacts of Japanese Rice Policies With and Without Supply Control” by Nobuhiro S. and H. Kaiser

“The Demand for Value Added and Convenience: A Household Production

Approach” by Richards, T.J., X.M. Gao, and P.M. Patterson.

“A Profile of Foreign Direct Investment by the US Fruit and Vegetable Industry” by Epperson, J.E. and J. C. Burnham.

“The Role of Fruit in the Japanese Gift Market: Situationally Defined Competitive Market Structure” by Gehrt, K.C. and S. Shim.

“A Willingness-to-Purchase Comparison of Integrated Pest Management Produce and Conventional Produce” by Govindasamy, R. and J. Italia.

“Case Study Research Methods for Firm and Market Research” by R. Westgren and Kelly Zering.

“Export Status and Assistance Needs of US High Value Agribusiness” by Jensen, K. and S. Hollis.

“The Global Citric Acid Conspiracy: Legal Economic Lessons” by J. Connor.

“Why Farmers Dropped the Mortgage Lifters: Motivations for Quitting the Hog Business and Incentives to Return” by Lawrence, J. D. and E. Wang.

“Futures Spread Risk in Soybean Hedge-to-Arrive Contracts” by Blue, E. N., M. L. Hayenga, S. H. Lence, and E. D. Baldwin.

“Supply Response and Demand for Basic Grains in El Salvador” by Lopez, R. and H. H. Ramos.

The 1999 volume of *Agribusiness: An International Journal* will have an entirely new size, cover design and text/table style similar to *The American Journal of Agricultural Economics*. Author pictures and

a brief vita will precede an article. New submission instructions for the new format are in 1998 Issues No. 5 and 6 and are available from the FMPC via email.

Please email manuscript submissions to:

FMPC@CANR1.CAG.UCONN.EDU

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General Announcements

Johanna Chua, Ph.D. candidate in economics, Harvard University, was a visiting research scholar at the Center this summer. Johanna is working with Martin Fieldstein and Catherine Wolfram on the transmission of ad valorem beer taxes and is using our IRI data base.

Mathieu Frigon M.S. candidate at Laval University, Quebec City, is a visiting research scholar this fall. Mathieu is completing his research on farm to retail price transmission in the Northeast US and Quebec milk industries.

Catherine Wolfram, Harvard University, gave a seminar titled, "Prices and Coupons for Breakfast Cereals." She and Aviv Nevo (assistant professor economics, University of California-Berkeley) are using our IRI data base for this study.

Bill Lesser, Cornell University, gave a seminar "Compulsory Licensing for Intellectual Property Rights Under the WTO."

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Food Marketing Policy Center Graduate Assistantships Available, Fall 1999

The Food Marketing Policy Center in the Department of Agricultural and Resource Economics has graduate assistantships

available at either the M.S. or 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 two years at M.S. and four years Ph.D. level. 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.

Food Marketing Policy Center on the Web

Don't forget to check out our ever-expanding Policy Center Home Page at:

<http://vm.uconn.edu/~wware/FMKTC.html>

Our web site contains an archive of newsletters, and an up to date publications list, which includes copies of recent Research Reports and Food Policy Issue Papers. These can be downloaded.

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NE-165 Conference Announcements

The web site for Regional Research Project NE-165: *Private Strategies, Public Policies, and Food System Performance* includes calls for abstracts for two conferences to be held in 1999. For information on the conference on Consolidation in the Meat Sector (February 24-25, 1999) see:

http://www.umass.edu/ne165/upcoming_call.html

and for the conference on Transitions in Agbiotech: Economics of Strategy and Policy (June 24-25, 1999) see:

<http://www.umass.edu/ne165/upcoming.html>

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Activity Report

Ronald W. Cotterill

(University of Connecticut)

Ron attended and delivered an invited seminar at the Northeast Extension Marketing Workshop held in conjunction with the Northeast Ag Economics meetings in Ithaca, NY, June 24-25, 1998. The title of the invited seminar was, "In-Store Marketing and Promotion: New Approaches to an Old Topic."

Ron delivered an invited seminar at the London Business School, London, UK June 1, 1998 titled, "Measuring Market Power: The Shift From Models of Collusion to Models of Unilateral Market Power."

Ron attended the third, INRA-IDEA conference on Industrial Organization in the Food Processing Industry in Toulouse, France, November 12-13, 1998. Ron delivered an invited paper jointly with Lawrence Haller titled, "An Econometric Analysis of Brand Level Demand for Breakfast Cereal: Product Market Definition and Unilateral Market Power Effects."

Ron attended the American Ag Economics Associations meetings in Salt Lake City, hosted a reception for the in-coming editorial board of *Agribusiness*, attended the Food Marketing Consortiums pre-conference on Case Studies in the Food Industries.

Ron is providing economic analysis on behalf the nation's dairy farmers in a class action law suit, *Servais vs. Philip Morris/Kraft*. The Plaintiff's case is based upon the University of Wisconsin's study of price manipulation on the Green Bay Cheese Exchange by Philip Morris/Kraft.

Julie Caswell

(University of Massachusetts)

Julie has been appointed a Steering Committee Member for a Conference on *Incorporating Science, Economics, Sociology, and Politics in Sanitary and Phytosanitary Standards in International Trade*, Board of Agriculture, National Research Council, National Academy of Sciences.

Julie taught a 2-week course on the *Economics of Food Safety* and served as a research consultant at the Universidade Estadual de Campinas, Brazil, in July. She also presented a seminar on *Valuing Food Safety and Nutrition: Benefits and Costs* to the Faculty of Food Engineering.

Julie co-organized a Symposium on *Private Incentives for Food Safety Assurance* and made a presentation on *How Strong Are Private Incentives for Food Safety Assurance?* at the annual meeting of the American Agricultural Economics Association, Salt Lake City, UT, August 4, 1998.

Julie was a discussant for Selected Paper Session on *Food-Borne Illness and Food Attributes: Analysis of Prices and Costs*, at the annual meeting of the American Agricultural Economics Association, Salt Lake City, Utah, August 3, 1998.

Julie presented a paper on *Labeling and International Trade Agreements* at a Workshop on Trade and Labeling, U.S. Department of Agriculture, Economic Research Service, Washington, D.C., August 17, 1998.

Julie has been elected to a three-year term as a Director of the American Agricultural Economics Association.

Julie made a presentation on *Is There an Urban Grocery Store Gap?* to the Community Forum: Help Make Certain There's Enough Food for Every Person, organized by the Greater Springfield Nutrition and Wellness Coalition, May 21, 1998.

Julie presented an invited paper on Public Versus Private Incentives for Food Safety at the annual conference of the Agricultural Economics Society of the United Kingdom in Reading, UK on March 27, 1998.

Rigoberto Lopez

(University of Connecticut)

Rigoberto Lopez continues working with Sanjib Bhuyan and Azzeddine Azzam on NEIO economic models. Their most recent interest is expanding such models to include measures of market structure, such as the Herfindahl index.

Michael Lubatkin

(University of Connecticut)

"Towards a Post-Structural View of Competition: Three Cases of Horizontal Merger" (Lubatkin, M, Schulze, W., Mainkar, A., and Cotterill, R.) was presented at the annual meetings of the Academy of Management (August, 1998; San Diego). The same paper was resubmitted after recommended revisions to the *Strategic Management Journal*. It has been selected as a finalist for the Best Paper Award for this year's annual Strategic Management Society's meeting and will be presented in that competition by Bill Schultze, professor of management, University of Connecticut.

Everett Peterson

(Virginia Tech)

Everett is working on Differentiated Product Models of Oligopoly Pricing with Ron and Ed Tomastik with the UConn math department. He also is developing models of price transmission for the dairy industry.

William Putsis

(London Business School)

Bill continues working on National Brand Private Label Pricing Strategies, and currently is embarking on a study with Larry Haller and Ron on National Brand Pricing Strategies in the Breakfast Cereal Industry.

Bill visited UConn in July to work with Food Marketing Policy Center staff on these projects.

Bill delivered "Estimating Competitive Interaction and Promotion Effectiveness" to the Marketing Science Conference, INSEAD, France, July 1998.

Bill presented "On the Competitive Interaction Between Private Label and Branded Grocery Products" at the Catholic University at Leuven, April 1998.

Subhash Ray

(University of Connecticut)

Subhash recently published a piece on efficiency frontier estimation in the *American Economic Review*. He is applying this model to data from the soft drink industry to evaluate the marketing efficiency of companies such as Coca-Cola and Pepsi.

Richard Rogers

(University of Massachusetts)

Rich was a discussant on a case study of the Sunkist Cooperative at the AAEEA pre-conference workshop, "Economic and Policy Implications of Structural Realignment in

Food and Ag Markets: A Case Study Approach,” Park City, Utah, July 1998.

Jennifer Lewis won the Kenneth D. Naden Graduate Award for 1998 for her thesis, “A Comparison Between the Advertising Strategies of Agricultural Marketing Cooperatives and Investor-Owned Firms in Food Processing”. Based on this presentation, Jennifer, Richard, and Rich Sexton will write a journal article and an article for a more general audience.

Kathy Segerson

(University of Connecticut)

Kathy Segerson has completed a project on Mandatory vs. Voluntary Approaches to Food Safety Regulation and has an article forthcoming in *Agribusiness* on that topic.

Edmond Tomastik

(University of Connecticut)

Ed is a mathematics professor who has authored several editions of a very popular undergraduate textbook, *Calculus* for use by business and economics students. Ed has worked with members of the Policy Center to include examples from agricultural marketing research in his most recent edition. Ed is also working on solving complex economic non-linear economic models.

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Data Corner

Recent acquisitions include:

The Food Marketing Policy Center has purchased 1993-1998 milk data from Information Resources, Inc. (IRI).

Trade Dimensions *Market Scope 1998*.

Trade Dimensions *Marketing Guidebook 1998*.

Metro Market Studies *Grocery Distribution Analysis and Guide 1998*.

The Food Institute *Food Industry Review 1998*.

Contact Andrew Franklin (860) 486-2826 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://vm.uconn.edu/~wwware/FMKTC.html>

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Recent Publications and Papers

Bhuyan, Sanjib and Rigoberto A. Lopez. “Oligopoly Power in the Food and Tobacco Industries,” *American Journal of Agricultural Economics* August 1997, 79(3)1035-1043.

Caswell, Julie A. In Press. “How Labeling of Safety and Process Attributes Affects Markets for Food.” *Agricultural and Resource Economics Review*. (Invited paper presented at the Annual Meeting of the Northeastern Agricultural and Resource Economics Association, Ithaca, New York, June 1998.)

Caswell, Julie A. Should Use of Genetically Modified Organisms Be Labeled?

AgBioForum. Published by Illinois Missouri Biotechnology Alliance, April 1998.

Caswell, Julie A., Maury E. Bredahl, and Neal H. Hooker. In Press. How Quality Management Metasystems Are Affecting the Food Industry. *Review of Agricultural Economics*.

Caswell, Julie A. In Press. Discussant's Comments on What Can We Learn from the ADM Global Price Conspiracies? Paper by John M. Connor. In *Economic and Policy Implications of Structural Realignment in Food and Ag Markets: A Case Study Approach*, ed. Sarahelen Thompson. Proceedings of AAEE Preconference organized by the Food and Agricultural Marketing Consortium, Park City, UT, July 1998.

Colatore, Corinna. 1998. *Economic Analysis of HACCP in the Seafood Industry*. M.S. thesis, University of Massachusetts at Amherst, 207 pp.

Colatore, Corinna and Julie A. Caswell. 1998. The Cost of HACCP Implementation in the Seafood Industry: A Case Study of Breaded Fish. Paper Presented at the NE-165 Conference *The Economics of HACCP: New Studies of Costs and Benefits*, Washington, DC, June 15. (Also presented at the Institute of Food Technologists Annual Meeting, June 1998.)

Colatore, Corinna and Julie A. Caswell. Survey Instruments for a Cost Study of HACCP in the Seafood Industry. NE-165 Working Paper No. 45. Storrs, CT: Northeast Regional Project 165, May 1998.

Cotterill, Ronald W. Jawboning Cereal: The Campaign to Lower Cereal Prices, Food Marketing Policy Issue Paper No. 17, University of Connecticut, October 1998.

Cotterill, Ronald W. and Andrew Franklin, An Estimation of Consumer Benefits from the Public Campaign to Lower Cereal Prices, Food Marketing Policy Issue Paper No. 18, University of Connecticut, October 1998.

Cotterill, Ronald W. and Lawrence E. Haller, An Econometric Analysis of Brand Level Demand for Breakfast Cereal: Product Market Definition in Unilateral Market Power Effects, invited paper delivered at Third Annual INRA-IDEI Conference on Industrial Organization in the Food Processing Industry, Toulouse, France, November, 1998.

Cotterill, Ronald W. Measuring Market Power in the Demsetz Quality Critique in the Retail Food Industry, *Agribusiness: An International Journal*, Issue No. 1, 1999. Forthcoming.

Lopez, Rigoberto A. and Sanjib Bhuyan. "Determinants of Allocative Efficiency from Oligopoly Power." *Quarterly Review of Economics and Finance* 38 (Spring 1998):61-72.

Noelke, Corinna M. *Parametric and Nonparametric Market Power Tests: An Empirical Investigation*. M.S. Thesis, University of Massachusetts at Amherst, May 1997. Chair: Kellie Raper.

Putsis, William and Ravi Dhar. "The Many Faces of Competition," *Marketing Letters*, 9(3), July 1998, 269-284.

Putsis, William. "Exploring the Rules of Competition," *Financial Times Mastering Marketing Series, Financial Times*, September 28, 1998.

Putsis, William. "Are Brand Promotions Just a Zero-Sum Game-or Can They Increase the Size of the Pie?," *Business Strategy Review*, 9(3), Autumn 1998, 21-32.

Rogers, Richard T. "Sunkist: A Discussion of a Case Study" presented at the "Food and Agricultural Marketing Consortium 1998 Research Conference" held in Park City, Utah, July 31-August 2, 1998, 16 pages.

Royer, Jeffrey S. (University of Nebraska-Lincoln) and Richard T. Rogers. Eds, *The Industrialization of Agriculture: Vertical Coordination in the Food System*, Ashgate Publishing Limited, October 1998.

Segerson, Kathleen. "Mandatory vs. Voluntary Approaches to Food Safety Regulation," *Agribusiness: An International Journal*, Issue No. 1, 1999. Forthcoming.

Tomastik, Edmond, *Calculus-Applications and Technology for Business, Social and Life Sciences, second edition*. Saunders College Publishing, 1999.

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