



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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Newsletter Editorial:

The Philip Morris-Nabisco Merger Raises Issues That Go Beyond Market Power

by Ronald W. Cotterill

The Philip Morris-Nabisco merger is a major event in the new wave of acquisitions that is sweeping the global food manufacturing and retailing industries. Antitrust law, as it is currently applied, takes a very narrow view of the consequences of market and product extension mergers. Such mergers must pass antitrust muster only if the two firms compete in a particular market such as the manufacturing of cookies, and if their combined market share raises concerns about the possible exercise of power in that market after the merger. Yet the Philip Morris-Nabisco merger raises the issue of market power in a more general fashion, and in much the same way that market extension mergers among large supermarket retailers raise it. Firms with dominant positions in several markets and large overall aggregate sales can play the game differently than their smaller rivals.

We may be moving to an economic system of very large bureaucratic corporations that replace markets with bargaining and contractual integration. This version of "supply chain management" and "category management" has very little to do with logistic cost efficiency. Ultimately, it is the triumph of Chicago school antitrust economics. In a world of sequential market power at two or more stages in the food marketing channel, vertical competition by firms at different stages of the channel reduces total channel profits. The economic problem reduces to how to coordinate sequentially powerful firms so that they extract only the one monopoly tariff that maximizes channel profits. Please, no more

than one monopolist to a distribution channel! Moving from sequential monopoly to a single monopoly actually increases output and lowers consumer prices. Since outright integration between food manufacturers and retailers is unfeasible, the preferred strategy is bargaining and contractual integration, in other words, "supply chain management".

This analysis assumes that these mergers generate barriers to entry at the manufacturer and at the retailer level so that the titans need deal only with each other. Since this emerging system allows them to increase their profits over alternatives that allow entry, this will be true. One might think that retailers would encourage entry at the manufacturing level and vice versa to increase their power relative to the other side; however, this process would cause both sides to lose market power, and the result would be a reversion towards competition in a market. This is a classic example of the prisoner's dilemma in game theory. Since neither side wants this option, it is doubtful that it will occur.

The system is moving towards gridlock with power being effectively exercised jointly by very large manufacturers and very large retailers, behind closed doors. Intervening markets die and are supplanted by John Kenneth Galbraith's technocracy and planning. A valid question is how many markets does an economy need? If one projects the Chicago school thesis to its logical endpoint, we need only one market, an efficient capital market. Then investors can compete for the right to own the sole surviving, and therefore "efficient", firm that runs the world's economy. *Reductio ad absurdum!*

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Food Marketing Policy Center on the Web

Don't forget to check out our ever-expanding Policy Center Home Page at:
<http://www.are.uconn.edu/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 Food Marketing Policy Center and Regional Research Project NE-165 are involved in the organization of a conference to be held in

September 2000 on *Valuing the Health Benefits of Food Safety*. The conference will discuss: how to estimate the value of a statistical life; how to reconcile or compare stated willingness-to-pay (contingent valuation), revealed willingness-to-pay (hedonic measures), and cost-of-illness estimates of the value of reducing foodborne illness; measuring (including comparative measures) the value of reducing bacterial hazards and the value of reducing chemical hazards; and measuring the pain and suffering and indirect productivity losses associated with foodborne illness. A description of this conference can be found at:

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

Registration information will be posted at the same site as it becomes available.

The Food Marketing Policy Center and Regional Research Project NE-165 were cosponsors of two conferences held in May and June, 2000. Papers from the first conference, *The American Consumer in the Changing Food System*, can be found at:

<http://www.econ.ag.gov/whatsnew/events/program.htm>.

Information on the second conference, *Global Food Trade and Consumer Demand for Quality* can be found at:

<http://www1.umn.edu/iatrc/meetings.html>

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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@CANR.UCONN.EDU

Manuscripts are submitted electronically to the same address.

Articles appearing in Issues No. 1 and 2, 2000 are as follows:

***Agribusiness* (16:1) Winter 2000**

"Editorial Introduction" by W. Lesser and Vittorio Santaniello.

"Survey Evidence on Producer Use and Costs of Genetically Modified Seed" by William D. McBride and Nora Brooks.

"Rent Creation and Distribution From Biotechnology Innovations: The Case of Bt Cotton and Herbicide-Tolerant Soybeans in 1997" by Jose B. Falck-Zepeda, Greg Traxler, and Robert G. Nelson.

"Roundup Ready® Soybeans and Welfare Effects in the Soybean Complex" by Giancarlo Moschini, Harvey Lapan, and Andrei Sobolevsky.

"The Source of Comparative Advantage in the Biotechnology Industry: A Real Options Approach" by Brian F. Lavoie and Ian M. Sheldon.

"Is Agricultural Research Still A Public Good?" by James F. Oehmke, Dave D. Weatherspoon, Christopher A. Wolf, Anwar Naseem, Mywish Maredia, and Amie Hightower.

"Universities and Agricultural Biotechnology Patent Production" by Jeremy Foltz, Bradford Barham, and Kwansoo Kim.

"An Economic Approach to Identifying An 'Effective Sui Generis System' for Plant Variety Protection Under TRIPs" by W. Lesser.

"An Evaluation of Risk Analysis as Applied to Agricultural Biotechnology (With a Case Study of GMO Labeling)" by Julie A. Caswell.

Agribusiness (16:2) Spring 2000

"Estimating Strategic Price Response in a Product-Differentiated Oligopoly: The Case of a Domestic Canned Fruit Industry" by Steven S. Vickner and Stephen P. Davies.

"Cross-Hedging the Cottonseed Crush: A Case Study" by Roger Dahlgran.

"Newspaper Advertisement Characteristics and Consumer Preferences for Apples: A MIMIC Model Approach" by Paul M. Patterson and Timothy J. Richards.

"A Discrete/Continuous Model of Fruit Promotion, Advertising, and Response Segmentation" by Timothy J. Richards.

"Determinants of Temporal Variations in Generic Advertising Effectiveness" by Chanjin Chung and Harry M. Kaiser.

"Probit Analysis of Fresh Meat Consumption in Belgium: Exploring BSE and Television Communication Impact" by Wim Verbeke, Ronald W. Ward, and Jacques Viaene.

"Technical Trade Barriers in US/Europe Agricultural Trade" by Silvia Weyerbrock and Tian Xia.

"Export Demand for U.S. Pecans: Impacts of U.S. Export Promotion Programs" by I.M. Onunkwo and J.E. Epperson.

BOOK REVIEW

by Sanjib Bhuyan

Food Marketing, by Joseph J. Belonax, Jr.

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Food Marketing Policy Center Graduate Assistantships Available, Fall 2001

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.

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Activity Report**Ronald W. Cotterill**

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

Ron delivered a commissioned paper on Dynamic Explanations of Food Industry Organization and Performance at the May 2000 USDA/ERS Conference titled, "The American Consumer and the Changing Structure of the Food System."

Ron attended the Organization for Competitive Markets Food Policy Retreat, Kansas City, April 29-30, 2000.

Ron is assisting the Attorneys General of Vermont, Connecticut and Massachusetts in their investigation of the Suiza Foods acquisition of the Stop & Shop milk plant and related private label processing.

Invited Seminars:

"Antitrust Policy in Food Industries", Consumer Federation of America, Washington, D.C., June 13, 2000.

"The Wisconsin Approach to Industrial Organization Analysis: Past, Present, and Future," Department of Agricultural Economics, University of Wisconsin, Madison, June 1, 2000.

"Structural Approaches to Price Transmission in Noncompetitive Market Channels: A Study of the Fluid Milk Industry," Department of Economics, Yale University, March 23, 2000.

Julie Caswell

(*Ag. Econ., University of Massachusetts*)

Julie taught a one week course on the *Food Quality Policy* at the International Centre for Advanced Mediterranean Agronomic Studies (CIHEAM), Zaragoza, Spain, November 29-December 3, 1999. While she was there, she also participated as a committee member in the thesis defense of Diogo Monjardino de Souza Monteiro. The thesis was titled *Portuguese PDO Cheese: Consumer's Profile in Lisbon and its Surroundings*.

Julie presented a C-FARE Congressional Briefing on *Labeling Policy for GMOs* to Congressional Staff, Washington, DC, 28 February 2000.

Julie presented a Case Study on *Regulatory Standards and International Trade* at a course on Analyzing Regulations: Health, Safety, and the Environment, Harvard School of Public Health, Boston, Massachusetts, 30 March 2000.

Julie was a discussant for a Selected Paper Session on *Information Policy*, at the Conference on The American Consumer and the Changing Structure of the Food System, Washington, DC, 5 May 2000.

Richard Chisik

(*Econ., University of Connecticut*)

Richard is working with Kathy Segerson to construct a model for analyzing the relationship between market based quality incentives, quality scores, and the role of government regulation.

Jeremy Foltz

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

Jeremy is continuing his collaboration with Bradford Barham and Kwansoo Kim at the University of Wisconsin on university production of agricultural biotechnology patents. Jeremy received funding from the UConn research foundation to complement the FMPC funding for this research project. They have now completed collecting a comprehensive data set of university ag-biotech patents and will present the latest results at the Agricultural Economics Meetings in Tampa and at the meetings of the International Consortium of Agricultural Biotechnology Research in Ravello, Italy.

Jeremy will also present a paper jointly written with a master's student, Hsui-Hui Chang, on "The Adoption and Impact of rBST on Connecticut Dairy Farms" at the Northeast Agricultural and Resource Economics Association meetings in June.

Bruce Larson

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

Bruce and a graduate student are working on their eco-label study for the marketing of shade coffee in the US.

Rigoberto Lopez

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

Paper presented at professional meeting:

Lirón-España, Carmen, Rigoberto A. Lopez, and Azzeddine M. Azzam. "The Impacts of Market Concentration in the Food Industries." Selected Paper, Northeastern Agricultural and Resource Economics Association, West Greenwich, Rhode Island, June 11-13, 2000.

Work in progress:

Lopez, Rigoberto A., Azzeddine M. Azzam, and Carmen Lirón-España. "The Welfare Effects of

Industrial Concentration in the Food Processing Industries."

Invited seminars:

"The Impacts of Industrial Concentration in U.S. Food Processing," Economic Research Service, USDA, Washington, D.C., April 14, 2000.

"The Impact of Industrial Concentration on Processed Food Prices." Université Laval, Québec, Canada, May 26, 2000.

"The Price and Welfare Effects of Industrial Concentration." Department of Economics, University of Basel, Switzerland, June 26, 2000.

Michael Lubatkin

(Business, University of Connecticut)

Michael recently returned from sabbatic leave in Israel and is working on several articles with Avinash Mainkar, his recent Ph.D. student, and others on business strategy in food industries.

Avinash Mainkar

(Business, James Madison University)

Avinash defended his Ph.D. dissertation, "Product Proliferation as Barriers to Entry: A Longitudinal Study in the Food Manufacturing Industry" on June 7, 2000. He is now writing articles from it.

Thomas Miceli

(Econ., University of Connecticut)

Tom is working with Kathy Segerson and John Antle to model firm incentives to monitor and detect food safety risks and to evaluate the impact of alternative government policy instruments on firm behavior.

William Putsis

(London Business School)

Bill continues working with Ron Cotterill on branded and private label marketing issues.

Richard Rogers

(Ag. Econ., University of Massachusetts)

Richard has been on sabbatical leave at the Department of Applied Economics, University of Minnesota from February 1 to June 1, 2000. He gave a seminar to the department on "Agricultural Marketing Cooperatives Advertise Less Intensively Than Investor-Owned Food-Processing Firms" on March 10, 2000.

Richard taught a 2-week course on "Institutions in Agricultural and Food Markets" for the International Master on Agro-Food Marketing at the Mediterranean Agronomic Institute in Zaragoza, Spain to 25 students, November 22 to December 3, 1999.

Richard gave a presentation on "Agriculture and Competition Policy: The US Experience with Cooperatives and Marketing Orders" to Italian policy makers at "Agricoltura e politica della concorrenza", Bologna, Italy, January 17, 2000.

Richard and Dr. Daniel Lass, of Resource Economics at UMass, have finished work on two white papers. The first is on the State of Agriculture in Massachusetts that relies on the newly released 1997 Ag Census and the other is on food and wood processing from 1958 to 1997. 1997 Economic Census. A farmer survey in Massachusetts on alternative marketing channels has been successfully completed, and the data are being analyzed this summer.

Richard presented an invited paper on "Concentration in Food Manufacturing for the May 2000 Conference: The American Consumer in The Changing Food System, which used new data from a Special Census Tabulation of food manufactures for 1992 that are now available from the Food Marketing Policy Center.

Kathy Segerson*(Econ., University of Connecticut)*

Kathy is working with Richard Chisik, Tom Miceli, and John Antle on two separate models of firm strategies in the food safety area and government policy interaction with firm strategies.

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Data Corner**Recent acquisitions include:**

Progressive Grocer's Market Scope 2000.

Metro Market Studies *Grocery Distribution Analysis and Guide* 2000.

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

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

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://www.are.uconn.edu/FMktc.html>

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Recent Publications and Papers

Caswell, Julie A. Board on Agriculture and Natural Resources. 2000. *Incorporating Science, Economics, and Sociology in Developing Sanitary and Phytosanitary Standards in International Trade: Proceedings of a Conference*. Volume overview by Julie A. Caswell. National Research Council, National Academy of Sciences.

Caswell, Julie A. 2000. An Evaluation of Risk Analysis as Applied to Agricultural Biotechnology (With a Case Study of GMO Labeling). *Agribusiness* 16(1):115-123.

Caswell, Julie A. and Corinna M. Noelke. Unifying Two Frameworks for Analyzing Quality and Quality Assurance for Food Products. Principal paper to be presented at the International Agricultural Trade Research Consortium (IATRC) and NE-165 conference on *Global Food Trade and Consumer Demand for Quality*, Montreal, Quebec, Canada, June 2000.

Caswell, Julie A., Jason A. Donovan, and Elisabete Salay. Trading Up? Foreign HACCP Requirements and Domestic Food Safety Levels in Brazil. *Choices*. June 2000.

Colatore, Corinna and Julie A. Caswell. 2000. The Cost of HACCP Implementation in the Seafood Industry: A Case Study of Breaded Fish. In *The Economics of HACCP: Costs and Benefits*, ed. Laurian Unnevehr, pp. 45-68. St. Paul, MN: Eagan Press.

Cotterill, Ronald W. "Continuing Concentration in the US: Strategic Challenges to an Unstable Status Quo." University of Connecticut, Food Marketing Policy Research Report No. 48, August, 1999.

Cotterill, Ronald W. "Continuing Concentration in Food Industries Globally: Strategic Challenges to an Unstable Status Quo." University of Connecticut, Food Marketing Policy Research Report No. 49, October, 1999.

Cotterill, Ronald W., William P. Putsis Jr., and Ravi Dhar. "Market Share and Price Setting Behavior for Private Labels and National Brands." University of Connecticut Food Marketing Policy Research Report No. 51, January, 2000.

Cotterill, Ronald W. "Dynamic Explanations of Industry Structure and Performance" in *The American Consumer and the Changing Structure of the Food System*, Conference Proceedings, ERS/USDA, Washington, D.C., May 4-5, 2000.

Cotterill, Ronald W. and William Putsis, Jr. "Market Share and Price Setting Behavior for Private Labels and National Brands," *Review of Industrial Organization* 17 (1), August 2000, (forthcoming).

Cotterill, Ronald W. "Statement on Food Policy Issues" in Food Policy Retreat Conference Proceedings, Organization for Competitive Markets, Winsted, Connecticut, June 2000.

Cotterill, Ronald W., Leonard Egan, and William Buckhold. "Beyond Illinois Brick: The Law and Economics of Cost Pass Through in the ADM Price Fixing Case," *Review of Industrial Organization*, (forthcoming 2000).

Damery, David, David Holm, Dan Lass, and Richard Rogers, *A Food Marketing and Lumber Processing in Massachusetts 1958 to 1997*, University of Massachusetts, May 2000.

Dhar, Tirtha and Ronald W. Cotterill, "Structural Approaches to Price Transmission in Noncompetitive Market Channels: A Study of the Fluid Milk Industry" in *The American Consumer and the Changing Structure of the Food System*, Conference Proceedings, ERS/USDA, Washington, D.C. May 4-5, 2000.

Foltz, Jeremy, Bradford Barham, and Kwansoo Kim. "Universities and Agricultural Biotechnology Patent Production." *Agribusiness: An International Journal*, Vol. 16, No. 1, pp. 82-95, Winter 2000.

Franklin, Andrew W. "The Impact of Wal-Mart Supercenter Food Store Sales on Supermarket Concentration in U.S. Metropolitan Areas," presented at the May 2000 Conference: "The American Consumer and the Changing Structure of the Food System," Washington, D.C.

Gruber, Jenifer L., Richard T. Rogers and Richard J. Sexton. "Do Agricultural Marketing Cooperatives Advertise Less Intensively Than Investor-Owned Food-Processing Firms?", *Journal of Cooperation*, forthcoming.

Lopez, Rigoberto A. and Ibrahima Hathie. "The Structure of Government Intervention in African Agriculture." *Journal of Development Studies*. (forthcoming).

Lopez, Rigoberto, Azzeddine Azzam, and Carmen Lirón-España. "The Impact of Industrial Concentration on Processed Food Prices." *American Journal of Agricultural Economics*. (forthcoming).

Mainkar, Avinash, "Product Proliferation as Barriers to Entry: A Longitudinal Study in the Food Manufacturing Industry." Ph.D. dissertation, Department of Management, University of Connecticut, June 2000, M. Lubatkin, major advisor.

Mojduszka, Eliza M., Julie A. Caswell, and J. Michael Harris. *Consumer Choice of Food Products*

and the Implications for Price Competition and for an Analysis of Government Policy. Paper presented at the conference *The American Consumer and the Changing Structure of the Food System*, Washington, DC, May 2000.

Mojduszka, Eliza, Julie A. Caswell, Dennis B. West, and J. Michael Harris. 1999. *Changes in the Nutritional Quality of Food Product Offerings and Purchases: A Case Study in the Mid-1990s*. Technical Bulletin Number 1880. Washington, DC: U.S. Department of Agriculture, Economic Research Service, December.

Plato, Gerald and Ronald W. Cotterill, "Consumer Prices for Breakfast Cereals After the 1996 Manufacturer Price Reductions" in *The American Consumer and the Changing Structure of the Food System*, Conference Proceedings, ERS/USDA, Washington, DC, May 4-5, 2000.

Putsis, Jr., William P. and Ronald W. Cotterill. "Share, Price and Category Expenditure-Geographic Market Effects and Private Labels." University of Connecticut Food Marketing Policy Research Report No. 50, January, 2000.

Rogers, Richard T. A Monopoly and Competition, in *The Academic American Encyclopedia*, published by Grolier Incorporated, CT, USA, 2000 (forthcoming), 11 pages.

Rogers, Richard T. A The US Food Marketing System, an article for *The Wiley Encyclopedia of Food Science & Technology*, Frederick J. Francis, editor, 2nd Edition, John Wiley & Sons, New York, NY, 2000, 2701:2724.

Rogers, Richard T. A Structural Change in U.S. Food Manufacturing, 1958 to 1997". Commissioned paper presented at the May 2000 Conference: *The American Consumer in The Changing Food System* in Washington D.C.

Samson, Pierre. "Market Power and Price Transmission: The Case of Cheese." M.S. thesis,

University of Connecticut, January 2000. Ron Cotterill, major advisor.

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