Agricultural Marketing Channels as Competing Entities: What are the Main Research Needs?

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Introduction

Key focus of conference:

- Structural change in agricultural marketing system
- Role of policy given structural change

Research areas and methodologies:

- What don’t we need more research on?
- Where are some key gaps in the research?
Structural Change: Inputs

- Relatively *under*-researched:
  - Evolution and impact of seed industry concentration
  - Evolution of structure of life-sciences sector, i.e., co-existence of start-ups and multinational firms (Lavoie and Sheldon, 2002)
  - Concentration of patent ownership/technology fees/commodity bundling (Harhoff *et al.*, 2001; Moschini *et al.*, 2000)
Structural Change: Agricultural Sector and Processing

- Relatively well-researched:
  - Concentration and performance in processing
  - Estimation of monopsony power in meat-packing
  - Reasons for increased vertical coordination
  - Analysis of complete contracts using static principal-agent model (Knoeber and Thurman, 1994; Goodhue, 1999; Hueth and Ligon, 2001; Tsoulouhas and Vukina, 2001)
Structural Change: Agricultural Sector and Processing

Relatively under-researched:

- Estimation of efficiency loss from principal’s bargaining power and contract failure

- Analysis of “relational” vs. complete contracts (Levin, 2003)

- Behavioral analysis of time inconsistency (Della Vigna and Malmendier, 2004) and hidden information problem (Crawford and Sobel, 1982)

- Contract design with enforceable vs. implicit components (Bernheim and Winston, 1998)
Structural Change: Agricultural Sector and Processing

- Relatively under-researched:
  - Understanding connection between sunk costs, market structure and type of product differentiation, i.e., horizontal vs. vertical (Sutton, 1991)
  - Analysis of product differentiation in traditional commodity chains, e.g., GM vs. non-GM crops and associated end products (Fulton and Giannakas, 2004; Moschini and Lapan, 2004)
  - Product differentiation/labeling and resolution of credence good problem (Roe and Sheldon, 2002)
Structural Change: Retailing

- Relatively under-researched:

  - Role of *vertical restraints* – prior to 1980s, typically resale price maintenance/exclusive territories (McCorriston and Sheldon, 1997)

  - Since late-1980s, *slotting fees* common (Shaffer, 1991; Sullivan, 1997) – why and what effects?

  - Scarce retail shelf-space vs. high rates of product failure (Sullivan, 1997; Richards, 2004) vs. signals by processors of likely success of new product (Chu, 1992)

  - Does control of scarce shelf-space impact behavior upstream – e.g., constraint on product differentiation?
Structural Change: Retailing

Relatively under-researched:

- Debate as to whether slotting fees reflect retailer bargaining power (Shaffer, 1991; Rao and Mahi, 2001)

- Rise of private labels suggests balance of power may be shifting to retailers (McCorriston, 2002) – analysis of effects of private labels (Bontems et al., 1999)

- Will slotting fees and private labels generate a dual marketing structure?

- General issue of market access – role of networks (Gereffi, 1999; Rauch, 2001)
The Agricultural Marketing System: Role of Policy

- Imperfect information
- Traceability/liability

Inputs
- Anti-trust/mergers/patent laws technology policy
- Public vs. private research

Agriculture
- Environmental regulation
- Contract/anti-corporate farming law

Processing
- Anti-trust/mergers law
- Restrictive trade practices law

Retailing
- Anti-trust/mergers/planning law

Consumer
- Public vs. private provision of information/labeling/food safety law
Policy: Agricultural Marketing System

- Relatively well-researched:
  - Anti-trust policy in food processing/retailing
  - Breadth and depth of patents (Matutes et al., 1996)
  - Private research/patents (Moschini and Lapan, 1997)
  - Government supply of price information (Just, 1983)
  - Economics of generic promotion of commodities
Policy: Agricultural Marketing System

Relatively under-researched:

- Should one be worried about impact of concentration of GM patent ownership? (Harhoff et al., 2001)

- Are technology fees/commodity bundling in supply of GM crops anti-competitive? (Monsanto case)

- Is institutional environment for new agricultural technologies appropriate? Role of different agencies, FDA vs. EPA (Starlink corn case)

- Is there a place for the precautionary principle? (Gollier et al., 2000; Barrieu and Sinclair-Desgagne, 2003)
Policy: Agricultural Marketing System

- Relatively under-researched:
  - Regulation of contracts – “Producer Protection Act”
  - Need to think through policy in same context as mergers law, i.e., contracts need not be per se illegal, but evaluated in terms of efficiency vs. “fairness”
  - Economic impact of banning of tournaments and other types of contract (Tsoulouhas and Vukina, 2001; Wu and Roe, 2005)
Policy: Agricultural Marketing System

- Rules on contract termination damages – how does this affect expected payoffs in terms of efficiency vs. distribution?

Will principals respond by changing contract design? How are agents affected? Does it undermine *ex ante* reason for contracts?

- Rules about agents consulting advisers/ "cooling off" period – do they affect time-inconsistency?

- Provision of information by principals – does it moderate time-inconsistency problem and strategic use of information?
Policy: Agricultural Marketing System

- If contracts contain clauses on binding arbitration, and principals have bargaining power, do they also have *ex post* bargaining power if there is a contract dispute?

- Rules on dispute mediation and agent’s right to sue – is this form of litigation efficiency-enhancing?

- Principle of “good faith” and agent’s right to sue – does it increase cooperation between principal and agent? Does it result in frivolous litigation?

- Do contract laws protect agents from *ex post* opportunism but not change *ex ante* distribution of rents? What is role of bargaining associations?
Policy: Agricultural Marketing System

Relatively *under*-researched:

- Role of government vs. third-party verification of quality
- Analysis of impacts of different labeling systems – voluntary vs. mandatory
- What are implications of traceability/safety liability in the marketing system? (Hennessy *et al.*, 2001)
- How does marketing system react to overseas regulation of traceability/labeling?