



***Market Integration and Vertical and Spatial Price
Transmission in Agricultural Markets: Discussion***

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Outline

- ***Discuss the Four Papers – Agree and Disagree?***
- ***Independent Observations***
- ***Suggestions for Future Research***
- ***Entrepreneurial Opportunities***

Dairy Market Paper

- **Key Issues**
 - *Wide margins and asymmetric adjustments between farm and wholesale/retail prices are a concern.*
 - *Volatility of farm prices – and margins?*
 - *Increasing size of farm-to-wholesale/retail margin.*
- **Drawbacks**
 - *How much is due to policy (e.g., Milk Prices 101) and other institutions? There are lots of good economic reasons for widening margins. May be good reasons for asymmetry.*
 - *Risk behavior due to changing policy? Elasticity changes?*
 - *Cause of increasing margins? Details? Seattle v. Dallas?*

Fresh Produce Market Paper

- **Key Issues**
 - *Causality: Farm Price → Wholesale → Retail Price – is not surprising if price transmit information on supply shocks.*
 - *Fairness concerns of producers and producer groups.*
 - *Concentration and exercise of market power is a concern.*
- **Drawbacks**
 - *Efficiency and integration modeling issues.*
 - *Who defines fair? Fair appears to always be...*
 - *Market power measures are indirect at best – see Goodwin.*

Structure, Concentration, Market Power and Transmission Paper

- **Key Issues**
 - *Increased concentration is prevalent.*
 - *Tariff reductions interesting case studies – producer gains smaller than expected.*
 - *Good evidence of problem areas (tariff reductions and developing countries).*
 - *Shape of supply and demand function really matter.*
- **Drawbacks**
 - *Exercise of market power is mixed. Cause of concentration – cost economies and structural changes.*
 - *Structures prohibiting competition? State sanitation monopolies? Same producers that want fair trade...?*
 - *But is power mixed again? (What is the distribution of benefits to trade liberalization?)*
 - *What are the concrete policy recommendations from market power research? Match political realities?*

Meat Markets Paper

- **Key Issues**
 - *Models are informative – yes. Models find lots of asymmetry and slippages in transmission.*
 - *Nonstationarity – cointegration – simultaneity – seasonality? Good measurements require care.*
 - *Use the data we have but...*
 - *Models can be rationalized to address market power.*
- **Drawbacks**
 - *Models are useful – no. (Except Goodwin and Schroeder.)*
 - *No economic model that says why.*
 - *Retail prices... Data interval important.*
 - *Again, what can we do about it?*

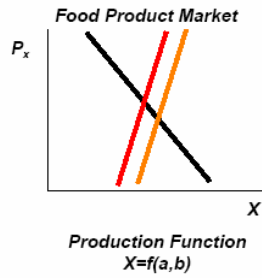
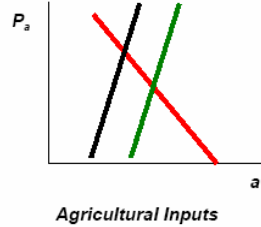
Gardner's Classic Margins Paper

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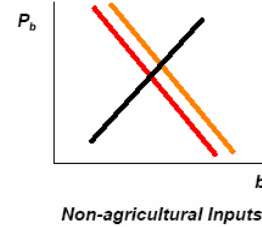
Red: Derived

Green: Exogenous Technology Change

Orange: Resulting Derived Changes

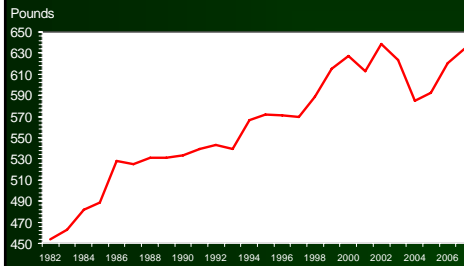


Bottom Line:
Adoption of new technology at the farm-level has widened margins.



Technological Improvement is Pervasive

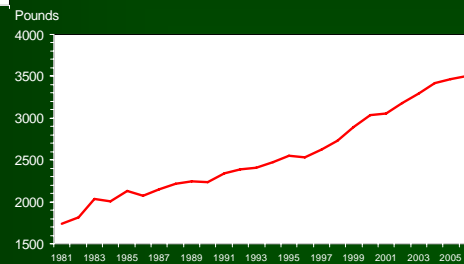
BEEF PRODUCTION PER COW
1982-2007 (Est.), Annual



In the meats industries, improved productivity results in 1% more output per year.

20 years -> 25%.

PORK PRODUCTION PER BREEDING HOG
1981-2006 (Est.), Annual



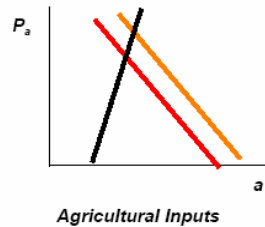
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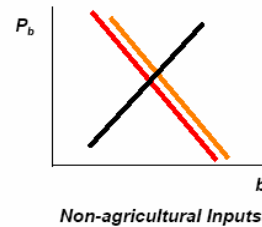
Green: Exogenous Demand Growth

Orange: Resulting Derived Changes



Bottom Line:
Growing demand has the potential to improve the farm share of consumer dollar.

Production Function
 $X=f(a,b)$



Issues from the GIPSA AMA L&MM Study

- *There is and there will be a lot of formula pricing arrangements – across stages.*
- *There is evidence of large reductions in transactions costs and business costs.*
- *Businesses are willing to accept having to pay and receive market prices...*
- *Businesses recognize the need to pay and receive overages for additional services...*
- *Animal identification, traceability, and information technology in the food marketing system.*

Independent Observations

- *Market efficiency and integration is well-researched*
- *Is the political environment going to support anti-trust action?*
- *Focus efforts on institutional changes*
 - *Electronic markets & Internet*
 - *Mandatory Livestock Price Reporting Example*
- *Wide margins and asymmetric responses are opportunities for farmers to become providers of marketing services.*
- *“You can do whatever you want – but you don’t have to get paid for it.”*

Business Recommendations

- *Provision of marketing services.*
- *Improvement in quality.*
- *Trade opportunities.*
- *Income effects.*
- *Traceability and experience goods.*
- *But it’s tough to technology-transfer this research to business...*

Research Recommendations

- *Answer the Not-Hollywood Question – How thin is too thin? Issue for livestock and meat industries.*
- *Base price discovery and Premium/Discount price structure discovery?*
- *Do what we can to get away from price-only studies. The devil is in the details... Look for natural experiments.*
- *Demand enhancement: improved products and grading systems*
- *Trade enhancement: ???*

Conclusions

- *Past research communicates the existence of potential problems.*
- *But offers few solutions?*
- *More cause and effect explanations needed.*
- *Normative versus Positive modeling.*
- *Focus on institutional changes for policies and recognize political realities.*