

Market Structure and Sustainable Food Systems Policy



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Policy Implications

Economic value of policy interventions may not fully benefit target populations in intermediated markets for local foods.

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MARKET STRUCTURE

Direct

- Farmers markets, on-farm stores or farm stands, roadside stands or stores, CSAs

Intermediated

- Supermarkets, supercenters, restaurants, caterers, independently owned grocery stores, food cooperatives.
- K-12 schools, colleges or universities, hospitals, workplace cafeterias, prisons, foodbanks
- Distributers, food hubs, brokers, auction houses, wholesale and terminal markets, and food processors.

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Direct Market

Producer



Consumer

Local Product & \$

Supply Side
Policy
Intervention

Demand Side
Policy
Intervention

for example

Value-Added
Producer Grants

Food Insecurity
Nutrition
Incentive (FINI)
Grant Program

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Intermediated Market

Producer ↔ Intermediary ↔ Consumer

Local Product & \$

Supply Side
Policy
Intervention

Demand Side
Policy
Intervention

**Will policy interventions
necessarily benefit target
populations?**

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Example: Farm to Institution (FTI) markets

- Food Authorities (FAs) buy local product through a distributor in an intermediated market channel.

Claim: buying local product from distributors reduces costs and helps FTI “scale up”

To analyze this claim, we:

- Interview farmers who sell to FTI markets in six New England states
- Analyze USDA FTS Census data regarding perceptions of lower costs from FTS procurement.
- Review economic theory regarding market organization

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Farmer Interviews (2014)

Sold to FTI markets in six New England states

Find that:

- Do not have bargaining power to negotiate preferred terms with traditional intermediaries
 - 30% sold through non-traditional intermediaries (non-profit brokers)
- Barriers cited to increased sales to FTI include low prices, volume requirements, and logistical challenges

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USDA Farm to School Census (2013-2014)
Procured Local Product - national

Find that:

- SFA procurement through intermediated marketing channels is less likely than direct procurement to lower FTS costs.
- Suggests Distributors
 - Do not reduce overall costs due to economies of scale, or
 - Do not pass cost savings through to SFAs

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Market Structure Theory

- Market Intermediaries
 - Reduce Costs or Create Market Power?
 - Theoretical and Empirical Ambiguity

Find that:

- Even if distributors reduce costs, they may exert market power
 - Cost reductions may be retained by the distributors, and not passed along to SFAs or farmers.
 - Reduces the quantity of local product supplied to FTI programs.

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Intermediated Market



If Intermediaries exercise market power, some portion of subsidy may be retained by intermediary.

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Policy interventions in intermediated markets for local food should consider the potential effect of intermediary market power.

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Thank you!



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1. "Market Channel and School Meal Costs in Farm to School Programs"
2. "Direct or Local?: Modeling Equilibria in Markets for Local Foods"
3. "Costs and returns to New England farmers in the farm-to-institution supply chain" Funded by NESARE for GNE 13-058