

Spatial Competition in a Mixed Market of Food Processors: The Case of Uniform Delivered Pricing

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Abstract

Markets of food processors are characterized by a high and increasing concentration. This fact might facilitate the exercise of market power towards agricultural producers. One way for farmers to evade market power is to form a marketing cooperative such that the market becomes a mixed one consisting of, both, investor-owned firms and cooperatives. The “competitive yardstick hypothesis” states that cooperatives can impel investor-owned firms to a more competitive behaviour. We analyze this hypothesis by setting up a spatial mixed market model under the assumption of uniform delivered pricing. By confronting the results with a pure market of investor owned firms a competitive yardstick effect can be verified. In addition, the results show that if the cooperative is the leader in a leadership game, the pro-competitive effect of the presence of a cooperative is higher than if the investor-owner firm is the leader.

Keywords: spatial competition, uniform delivered pricing, duopsony, food processing, cooperatives, mixed market