

Quality Provision and Farmer Inclusion of an Agricultural Cooperative

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Abstract

With increasing concern on food quality and safety, the food processing industry are becoming more stringent to the input quality of farmers. In this paper, we analyze the effect of input quality standard which is imposed by different organizational forms. We focus on participation of farmers in two kinds of organizations in the food processing industry: a marketing cooperative and an investor-owned firm. Taking into account the heterogeneous efficiency of farmers, we develop a model of product differentiation in context of a monopolistic organization and mixed duoposonistic competition, respectively. The result shows that, when there is only one organization in the market, cooperative is more likely to impose a higher quality standard and to include more farmers as its suppliers compared to the investor-owned firm. When both cooperative and the investor-owned firm coexist in the market and compete for attracting the supply of farmers, the cooperative chooses to accommodate with a firm with higher quality standard if their relative market premium is higher compared to the relative cost of standard; while it chooses to accommodate with a lower quality firm if the comparison of premium is similar to the comparison of cost. In both cases, the coop earns higher profit than the investor-owned firm.

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