Intermediaries with Market Power and Trade Agreements in Agricultural Markets

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Abstract

Nowadays, the most common form of trade liberalisation comes in the form of preferential trade agreements. However, there has been little research that focuses specifically on how these agreements affect those involved in the food and agricultural sector and, in particular, when intermediaries in the food sector can exert market power. We present a theoretical model of trade agreements in a multi-country framework that encompasses seller and buyer power in each country. Buyer power is seldom incorporated in model of trade agreements encompassing market power. Our overall objective is to explore under what characterisations of the countries in the network, does buyer power matter more or less than seller power in determining the welfare and distributional impacts of these trade agreements in both member and non-member countries. We calibrate the theoretical framework to a case study of trade agreements across several countries in the cheese sector. Our headline result is that, in the context of trade reform, buyer power in the agricultural sector can have a significant impact on the outcome of trade agreements and be more important than the impact of seller power. When countries are similar in market size, in the absence of buyer power, a trade agreement results in a net increase in the new partner countries' welfare arising from the pro-competitive effects that are associated with trade reform. When countries are similar in market size, when there is buyer power, a trade agreement causes some countries to increase welfare and others lose. The distributional effects can also vary as intermediaries can lose but farmers gain from trade agreements.

Keywords

Trade Agreements, Intermediaries, Market Power, Case Study.