

CMD 511

511 - Consumer Welfare, Firm Behavior and Supply Management Policies in the Chicken Industry

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Research Summary

North American food industries are becoming increasingly concentrated. This pattern is observed because as inefficient firms exit, incumbent firms desire to increase their size to reap the benefits from scale and scope economies. While there are benefits from firm economies there are also concerns about imperfect competition and market power in the food industries e.g. Azzam (1997), Cranfield and Goddard (1999) and Sexton (2000).

The Canadian chicken sector is a particularly interesting study object in this regard. There are intriguing linkages between the supply management policies and industry consolidation that influence not only domestic live animal producers, processors, retailers and consumers but also the export market. Outcomes of supply management, a process of determining production quotas from projections of demand by processors at negotiated farm level prices, are directly affected by consumer demand for chicken product by cut and type of processing. The objective of this research is to analyze the impact of competition among Canadian processors and retailers on retail pricing and product disappearance. Links to producer and consumer welfare will also be determined.

Significance of Research

The outcome of this research will provide an assessment of the economic performance in the chicken industry under prevailing and counterfactual scenarios. Policy decision makers will learn what the costs and benefits are from different negotiated price outcomes under the current supply management policy. Consumers would benefit to the extent that they would learn whether the prevailing policies lead to efficient markets. Business decision makers in the supply chain would learn whether the current domestic policy promote or inhibit profit potential in the industry. Live animal producers would gain insight into whether processors and retailers can or are influencing the market prices.