



# **Quarterly Report**

**to USDA Rural Development  
Agricultural Marketing  
Resource Center (AgMRC)**

*April 1, 2007 – June 30, 2007*

Submitted by Iowa State University, Kansas State University  
and the University of California.

# Center for Agricultural and Rural Development (CARD) Iowa State University

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## *Third Quarter Report*

*April 1, 2007 to June 30, 2007*

### **Goal #1**

*Create and promote an electronic, Web-based library with powerful search capabilities to make value-added information and other resources available to producers (includes web site development and functions). Provide electronically available information and resources on value-added markets and industries including a wide variety of commodities and products (this includes the Commodities/Products and Markets/Industries sections of the Web site).*

No activity for this quarter.

### **Goal #2**

*Provide value-added business and economic analysis tools, including information on business principles, legal, financial and logistical issues (information contained in the Business Development section of the Web site).*

No activity for this quarter.

### **Goal #3**

*Conduct research and analysis on economic issues facing producers involved in value-added business ventures (this includes research activities on all topics included at the Web site).*

Financial resources provided for Goal #3: \$7,046

### *Research Papers*

Marette, Stéphan, Jutta Roosen, Sandrine Blanchemanche, and Philippe Verger. "Health Information and the Choice of Fish Species: An Experiment Measuring the Impact of Risk and Benefit Information. CARD Working Paper 06-WP 421, Center for Agricultural and Rural Development, Iowa State University, Ames, June 2007.

Paulson, Nick D., and Roger G. Ginder. "The Growth and Direction of the Biodiesel Industry in the United States." CARD Working Paper 07-WP 448, Center for Agricultural and Rural Development, Iowa State University, Ames, IA, May 2007.

Secchi, Silvia, and Bruce A. Babcock. "Impact of High Crop Prices on Environmental Quality: A Case of Iowa and the Conservation Reserve Program." CARD Working Paper 07-WP 447, Center for Agricultural and Rural Development, Iowa State University, Ames, May 2007.

Secchi, Silvia. "Watching Corn Grow: A Hedonic Study of the Iowa Landscape." CARD Working Paper 07-WP 445, Center for Agricultural and Rural Development, Iowa State University, Ames, April 2007.

Clemens, Roxanne. "After the Ban: The Japanese Market for U.S. Beef." Briefing Paper 07-MBP 12, Midwest Agribusiness Trade Research and Information Center, Iowa State University, Ames, April 2007.

#### **Goal #4**

*Conduct outreach activities to disseminate the research and information assembled and developed under the previous three goals. These activities are designed for producers, producer groups, businesses and others involved in value-added agriculture (this includes all outreach activities of the Center including workshops, seminars, newsletters and other delivery methods including individual client requests for specific information).*

Financial resources provided for Goal #4: \$2,349

#### *Newsletter Articles*

Babcock, Bruce A. High Crop Prices, Ethanol Mandates, and the Public Good: Do They Coexist?" *Iowa Ag Review* Spring 2007 13(2):1-3.

\_\_\_\_\_. "Land Rents: How High Will They Go and Who Gains?" *Iowa Ag Review* Spring 2007 13(2):6-7.

Carriquiry, Miguel. "U.S. Biodiesel Production: Recent Developments and Prospects." *Iowa Ag Review* Spring 2007 13(2):6-7.

Secchi, Silvia, and Bruce A. Babcock. "Impact of High Corn Prices on Conservation Reserve Program Acreage." *Iowa Ag Review* Spring 2007 13(2):4-5.

#### *Presentations*

Babcock, Bruce A. "Facets of the Bioeconomy Affecting the Small Towns in Iowa." Presented at Community Futures: The Small Town in the Bioeconomy conference, Iowa State University, Ames, April 10, 2007.

\_\_\_\_\_. "Impact of Ethanol on the Livestock Industry." Webinar presentation for the Chicago Mercantile Exchange, Chicago, IL, April 26, 2007.

\_\_\_\_\_. Seminar on ethanol industry presented at the University of Minnesota, St. Paul, May 1, 2007.

\_\_\_\_\_. "Impact of High Corn Demand and Prices on Consumer Food Costs." Topic of taped segment with Anne Thompson, chief environmental affairs correspondent, *NBC Nightly News*, aired May 2, 2007.

\_\_\_\_\_. "Research on the Effects of Biofuels." Topic of press conference at the American Meat Institute, Washington, DC, May 17, 2007.

\_\_\_\_\_. "USDA's Planting Intentions Report and the Increased Corn Acreage Predicted." Topic of on-camera interview with Angie Hunt, KCCI-TV, Des Moines.

\_\_\_\_\_. Economic overview of ethanol presentation at the Experts Workshop on the Sustainability of Bioenergy, jointly sponsored by USDA/CSREES and Department of Energy/Office of Biological & Environmental Research, Washington, DC, June 20-22, 2007.

\_\_\_\_\_. Presentation on ethanol's impact on commodity markets, Mexico City, Mexico, June 26 and 27, 2007.

Beghin, John. "Land Allocation Effects of the Global Ethanol Surge. Predictions from the International FAPRI Model." Presented at the Modeling Global Land Use and Social Implications in the Sustainability Assessment of Biofuels, Biofuel Assessment Conference and Workshop, Copenhagen, Denmark, June 4-5, 2007.

Elobeid, Amani. "Global Biofuel Demand." Presented at the conference Food and Fuel: The Implications for Agricultural Research Policy, University of Saskatchewan, Saskatoon, Canada, June 4-6, 2007.

Hart, Chad E. "Corn and Soybean Supply and Demand Projections in Light of Fuel Demand and Economic Feasibility of Cellulosic Fuels." Topic of on-camera interview with Kaori Iida, Washington economics correspondent for the NHK-Japan Broadcasting Corporation, April 23, 2007.

\_\_\_\_\_. "Food or Biofuels." Presented at Global Agricultural Forum 2007, sponsored by the National Agricultural Council of Mexico, Mexico City, Mexico, June 13-15, 2007.

Hayes, Dermot. Presented paper on the impacts of ethanol presented at Informa conference, McLean, VA, April 11, 2007.

\_\_\_\_\_. Presentation on ethanol research, sponsored by the Omnina company, presented in South Africa, April 19-May 9, 2007.

\_\_\_\_\_. Paper presented on geographical indications, Toulouse, France, June 14-15, 2007.

Secchi, Silvia. *“Impact of High Crop Prices on Environmental Quality: a U.S. Example.”* Presented at Modeling Global Land Use and Social Implications in the Sustainability Assessment of Biofuels, Biofuel Assessment Conference and Workshop, Copenhagen, Denmark, June 4-5, 2007.

# Iowa State University Extension

## Iowa State University

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### *Third Quarter Report*

*April 1, 2007 to June 30, 2007*

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The Web site generated more than 10.9 million hits from April through June and more than 328,431 combined visits during that period. The site averaged 109,477 visits per month and 3,607 visits per day. Each month saw an average of 37,332 downloaded files from the site.

#### **Updated Commodities & Products**

The following pages were updated: apples – commodity, apples – online, apples – organic, apples – u-pick, bison, blackberries, blueberries, chestnuts, crambe, cranberries, crawfish, dairy products, dairy – international, dairy – organic, Egyptian wheat, equine agritourism, floriculture, fluid milk, herbs, kenaf, nature-based tourism, ostrich, oysters, pears, pecans, pine nuts, poultry – game birds, poultry – organic, prairie grasses, pumpkins, sheep – dairy, squash, strawberries – u-pick, sunflowers, walnut – black, walnut – English, wine tours and worms.

Work continues on commodity profiles for dates, eggplants, figs, chickpeas and culinary herbs. Additional work began to expand profiles for the various food and energy segments profiled in the Markets and Industries section.

Updated pages in the Markets & Industries sections include: fiber, pharmaceuticals, tourism, transportation, solar power and wind.

#### **Goal #2**

*Provide value-added business and economic analysis tools, including information on business principles, legal, financial and logistical issues (information contained in the Business Development section of the Web site).*

1) Created 2 new subsections

2) New Information Files Created (8)

- Setting Personal, Family & Business Goals for Business Success
- External Scanning & Industry Analysis
- Internal Scanning
- Portfolio Analysis and Enterprise Strategy Development
- Strategic Planning for Value-added Farm Businesses

- Farm Business Strategies
- What is Important to Me?
- Growth Strategies by Type of Firm

3) Revised 6 cover page files

4) Revised 5 Information Files

5) Added 5 links to outside sources as well as editing other

6) Created a new sections in the presentations section

- 2 new webcasts focused on Skill Building Presentations

**Goal #3**

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**Goal #4**

*Conduct outreach activities to disseminate the research and information assembled and developed under the previous three goals. These activities are designed for producers, producer groups, businesses and others involved in value-added agriculture (this includes all outreach activities of the Center including workshops, seminars, newsletters and other delivery methods including individual client requests for specific information).*

**Trade Show Promotions/Outreach**

Staff attended and manned a booth at numerous trade shows to continue development of a user base. The following table represents programs, events and outreach either funded by AgMRC, designated by a \* or represented AgMRC as match dollars through staff time and travel dollars.

April 11-13	NAMA Conference	Dallas, TX	Madeline Schultz attended the conference and promoted AgMRC.
April 17-18	National Extension Risk Management Education Conference	Phoenix, AZ	Craig Tordsen and Christa Hartsook attended and promoted AgMRC.
April 23-25	Food BIN	Ames, IA	Marsha Laux coordinated this national event in Ames. More than 30 food business incubators attended and

			networked.
May 1-3	National Cooperative Conference	Washington, D.C.	Schultz attended and promoted AgMRC.
May 13-16	American Oil Chemists Conference	Quebec City	Connie Hardy attended and spoke on an oil fry test study on behalf of AgMRC.
May 30-June 1	PDI Spring Conference	Iowa City, IA	Tordsen attended and promoted AgMRC.
June 3-5	National Value Added Conference	Lexington, KY	Tordsen and Ray Hansen attended and spoke and promoted AgMRC.
June 12	National Farm Management Specialists	Rochester, MN	Schultz attended and spoke on behalf of AgMRC on educating producers via the web.

### Client Requests

Staff researched and responded to 134 e-mailed questions this quarter.

The AgMRC toll free phone received 101 inquiries from 18 states; including Arizona, California, Florida, Illinois, Indiana, Iowa, Massachusetts, Michigan, Mississippi, Nebraska, Nevada, New Jersey, New York, New Mexico, North Carolina, Oregon, Texas and Virginia.

The AgMRC toll free number 866-277-5567 is provided on AgMRC brochures for those seeking additional information.

### Additional Public Relations

The Summer issue of the AgMRC Action newsletter was distributed via e-mail and made available online. The 10-page newsletter is sent bi-monthly to a list of 2,000 names comprised of producers in value-added agriculture, service providers, media and others. Each newsletter consists of an article from one of the partnering organizations in AgMRC, a state profile to give a snapshot of value-added agriculture in certain areas, new research and other updates added to the Web site in the past month, a value-added agriculture business profile and a calendar of upcoming value-added agriculture events.

Features in the newsletter included a feature on Brazilian ethanol versus U.S. ethanol, surging sales for national chains, food safety costs, fundamentals of beef management and web updates to [www.agmrc.org](http://www.agmrc.org).

The energy ethanol article was sent to several specific energy trade publications and websites to promote AgMRC as a credible source of current information on specific topics within value-added agriculture.

# Kansas State University

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Nothing to report at this time. We responded to requests for information on sugar beets, grain sorghum, distillers grains, buckwheat, rye, oats, ancient wheats, and natural beef.

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KSU completed the VAPG database and began linking farm payment and cropping data to the database. We maintained basis maps of Midwest wheat, grain sorghum, corn, and soybeans.

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Staff completed a case study on ancient wheats. KSU completed a survey in conjunction with *Beef Magazine* of 2,576 cattle feeders across the United States to evaluate their potential use of distillers grains. A KSU student M.S. thesis defense of this is to be July 20. *Beef Magazine* is publishing a copy of the report in August 2007.

Staff began a study on destination and origin ethanol plants and a separate study on value-added wheats and their use as a nutraceutical.

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KSU began planning director workshops in California, Colorado, Washington, Georgia, Illinois, Indiana, Ohio, and Michigan.



# **Agricultural Issues Center**

## **University of California**

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Writing of summaries of our research findings (see Goal 3) and their postings on the website has been ongoing. In addition UC AIC worked on creating tobacco, wines and winegrape, and dairy commodity profiles for the website.

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**Commodity Profiles** (Hayley Boriss, Christopher Gustafson, Daniel Sumner and Marcia Kreith, University of California)

The tobacco profile was finalized and submitted this quarter. After several more iterations, the wines and winegrapes profile now awaits final review. In addition, creation of a current profile on the dairy industry commenced with collection of data and writing of the first draft.

#### **The Measure of Agriculture and the Contribution of Agriculture to the Economy**

(Daniel Sumner, Hayley Boriss, Henrich Brunke, Marcia Kreith, Kurt Richter, Omid Rowhani and Laurie Treacher, University of California)

Reformatting and rechecking of revisions continued.

**Agricultural Exports** (Omid Rowhani, Daniel Sumner, Laurie Treacher, Marcia Kreith University of California)

After the Issues Brief on California agricultural exports in 2005 was made available for online posting, we began obtaining export data on 2006 exports for 55 major commodities and their final export destination. Preliminary estimates for 45 of the 55 commodities have been obtained thus far. Also, during this period Rowhani created the survey that will be used to obtain accurate export data from California dairies.

**Government Programs, Market Power and International Trade** (Sanggon Jeon and Daniel Sumner, University of California)

We have been analyzing the impacts of market power on the consequences of trade policy changes. Many dairy products are protected by tariffs and tariff rate quotas (TRQs). This quarter saw near completion of a

paper developing a trade model for dairy-products that incorporates imperfect competition derived from the political power of domestic producers in the raw-milk market and market power of domestic processors and importers in the fluid-milk and processed-milk markets. The paper simulates the impacts of potential tariff cuts under alternative assumptions about the domestic market structure.

**Assessing Grower Benefits from Stimulating Consumer Demand for Fruits and Vegetables** (Karen Jetter and Daniel A. Sumner, University of California and James A. Chalfant, University of California, Davis)

This project is estimating the impact on U.S. agricultural industries should people increase average consumption of fruit and vegetables to meet the minimum U.S. dietary guidelines. At the end of last year the model was revised to: (1) make it more consistent with the dual approach developed by Wohlgenant, and (2) generalize the model to allow for less restrictive parameter values. Activities included respecifying the multi-market model, reprogramming the file to generate the parameter matrix, reprogramming the files to run the analysis and data analysis.

During this period the programming and data problems that were leading to inconsistent estimates were addressed. A new parameter matrix is being programmed and the data sets were updated so that both the supply and demand data reflect the same years.

**Healthy Food for Residents of Low-Income Neighborhood** (Karen Jetter, University of California and Diana Cassady, University of California, Davis)

The object of this project is to determine if making fresh produce available in convenience stores in low-income neighborhoods will result in significant purchases of those items by residents of the neighborhood. An article on the study submitted to the *Journal of Nutrition Education and Behavior* is still under review. Another article that focuses on the sales of locally grown produce is now under revision.

**Effects of Agricultural Policies on Obesity** (Julian Alston and Steve Vosti, University of California, Davis and Daniel Sumner, University of California)

Work continued on this project that aims to assess the effects of past agricultural policies on obesity trends and to make suggestions for changes in ag policies to help reduce these trends. Further revisions were made to the chapter "Proposed Modifications to the Food Stamp Program (FSP): Likely Effects and their Policy Implications," by Conner Mullally, Julian M. Alston, Daniel A. Sumner, Marilyn Townsend, and Stephen A. Vosti, which will appear in the book edited by Elliott Blass, *Obesity: Causes, Mechanism, and Prevention*. Also, these researchers have been actively preparing materials for several conferences, including a paper to be presented by Alston at the Sixth World Congress on Health Economics in Copenhagen in July.

**Effects of Agricultural Policies on Obesity: Increasing Access to Fruit and Vegetables** (Julian Alston, Steve Vosti, Lucia Kaiser, and Virginia Chaidez, University of California, Davis; and Daniel Sumner, University of California)

The focus of this study is to increase fresh fruit and vegetable consumption by Latina mothers and toddlers in the Sacramento, California area. Work on developing the survey continued.

**Economics of Traceability and Food Safety** (Sébastien Pouliot and Daniel Sumner, University of California)

This quarter we progressed on a paper on traceability to preserve the reputation of an industry. Pouliot will present the paper at the Canadian Agricultural Economics Society meeting in July in Portland, Oregon. Pouliot and Sumner's "Traceability, Liability and Incentives for Food Safety and Quality" is now accepted for publication in the *American Journal of Agricultural Economics*.

**Grapevines of Innovation: Diffusion of Innovations in the Wine Industry**

(Calanit Bar-Am and Jonathan Barker, University of California and Rolf A.E. Mueller, Universität Kiel)

The researchers on this project mailed invitations to participate in their survey to close to 800 wineries in California and followed up with reminders. The objective of this project is to assess the importance of communication networks for technology adoption by agribusiness enterprises, in this case, the adoption of ozone sanitation technology by California wineries. After two reminders some 130 of the wineries have submitted online filled-in questionnaires. The survey is considered complete and data no longer is being accepted from respondents. Questionnaire data have been captured automatically by the web server at CAU Kiel and data have been processed into an Excel file. Initial inspection suggests that data collection and capture worked as expected.

**Hedonic Wine Pricing Study Using experimental Methods** (Christopher Gustafson and Daniel Sumner, University of California)

We continued to refine and develop the research plan to study hedonic wine pricing using experimental economics. Specifically we developed a detailed plan to study consumer valuation of agricultural products differentiated by place of origin and other characteristics. We will conduct sensory and market-based experimental analyses of consumer behavior with different pieces of information and different levels of consumer experience with wine and the wine market.

**What Determines the Wine Price? The Significance of American Viticultural Areas (AVAs) in U.S. Wine.** (Hyunok Lee, University of California, Davis and Oh Sang Kwon, Seoul National University)

This project uses a massive data set of more than 100,000 wine price observations to assess the importance of grape regions in the pricing of wine. It considers the degree to which location attributes determine wine pricing and explores fuller interpretations of the hedonic evidence. In particular, it explores the linkage between market prices for winegrapes and market prices for the wine from those grapes. Appellation has often been associated with European wines. This project investigates the relationship between appellation and wine prices for the U.S. product. The preliminary empirical results provide new evidence on the relationships between the location of winegrapes and wine price. A research paper is being prepared.

**Marketing Wine on the Web** (Rolf A. E. Mueller, Universität Kiel and Daniel A. Sumner, University of California)

As spinoff from earlier AgMRC the work, magazine *Choices* (published by the American Agricultural Economics Association) has published "Marketing wine on the web" by Susanne Stricker, Rolf A.E. Mueller, and Daniel A. Sumner. 2007, 22(1), pp. 31-34.

**Tomato Producer-Processor Contracts** (Rachael Goodhue, University of California, Davis)

Goodhue gave an invited presentation at a conference of researchers and industry members in New Delhi on the topic "Meeting Quality Requirements Using Contracts: Bonuses, Penalties, and Input Provision." Presented at "Contract Farming: Methods and Experiences," an ICAR-USDA workshop under the India-U.S. Agricultural Knowledge Initiative.

**Solano County Agriculture Futures Project** (Kurt Richter, University of California; Al Sokolow, Human and Community Development Department, University of California, Davis; and Carole Paterson, University of California Cooperative Extension, Solano County)

The Solano Project entered a stage of report writing and fact checking. The staff has been working closely with the Solano County Ag Advisory Committee to guarantee the accuracy of the commodity profiles and economic analysis reports due next month.

**Pollinators** (Hayley Boriss and Daniel Sumner, University of California)

The researchers continued work on this project addressing factors that affect bee pollination fees for specific crops. The data set has been completed, initial regressions run and alternate models were discussed. Current plans are to prepare a paper for publication in a refereed journal.

**The Source of U.S. Imports and Trade Flows** (Hayley Boriss and Daniel Sumner, University of California)  
Tracing the source of U.S. imports and trade flows, this study illustrates the difficulty in following ingredient imports to other countries which may ultimately be destined for the United States. It also highlights current direct imports from China and levels of specificity available.

**Australian-U.S. Free Trade Agreement (AUS-FTA)** (Julian Alston, University of California, Davis; Daniel A. Sumner and Henrich Brunke, University of California; and Joseph V. Balagtas, Purdue University)  
Research writings from this former AgMRC project recently have been honored with an award from the Australian Agricultural and Resource Economics Society. The Blackwell prize for best article in the Australian Journal of Agricultural and Resource Economics (AJARE) in 2006 was awarded for the Alston, J.M, J.V. Balagtas, H. Brunke, and D.A. Sumner article, "Supply and Demand for Commodity Components: Implications of Free Trade versus the AUSFTA for the U.S. Dairy Industry." The article appeared in the *Australian Journal of Agricultural and Resource Economics* 50(2)(June 2006): 131-152.

**Regulatory Effects of Milk Marketing Orders** (Joseph V. Balagtas, Purdue University and Daniel A. Sumner, University of California)

Two papers resulting from this project were made available for posting on the AgMRC website this quarter: "Effects of Milk Marketing Order Regulation on the Share of Fluid-grade Milk in the United States," by Joseph V. Balagtas, Aaron Smith, and Daniel A. Sumner. The share of raw milk meeting fluid quality (Grade A) standards in the United States rose steadily through the latter half of the 20th Century, but a shrinking portion of that milk was used in fluid products. The authors' findings support the hypothesis that marketing orders significantly encouraged the growth in Grade A share of milk, which has been increasingly used for manufactured dairy products. This paper is forthcoming in the *American Journal of Agricultural Economics*. 2007.

"Dissipation of Regulatory Rents: Neglected Costs of Milk Marketing Orders." This paper by Joseph V. Balagtas and Daniel A. Sumner models and measures the losses incurred when farmers compete for access to the program benefits in the context of milk marketing orders in the United States. Participation costs are shown to significantly reduce producer benefits and increase social costs of the regulation. Gains from program participation attracted entry into the regulated market, resulting in excess production of beverage quality milk for the manufacturing milk market. A University of California Agricultural Issues Center Working Paper. June 2007.

**The Implications of Marketing-Order Quality Regulations in a Free-Trade Environment** (Tina L. Saitone and Richard J. Sexton, University of California, Davis)

Writing was completed on this paper which will be presented as a selected paper at AAEA in Portland and is now posted on Ag Econ Search website. Among other functions, federal marketing orders allow producers to impose quality regulations and inspections, and, under the section 8e provision, require imports to be subject to the same quality standards and regulations as the domestic industry. As efforts to liberalize trade rapidly continue, the degree to which a minimum quality standard (MQS) can be used in conjunction with section 8e as a nontariff trade barrier becomes a subject of increasing importance.

Saitone and Sexton investigate the impacts of a MQS imposed by a domestic agricultural industry under the auspices of a marketing order in both a closed- and open-economy setting under both perfect and imperfect competition. The model allows domestic producers to act collectively, as permitted under marketing-order

provisions, and to choose whether or not to impose a MQS based upon whether the industry profit under the MQS exceeds the profit under no regulation.

The paper shows that when the product is sold competitively, any market condition that causes the domestic industry to impose an MQS insures that all consumers of the product are harmed by the MQS and total welfare declines. An open-economy setting expands the range of model parameterizations when a domestic industry will implement an MQS because it can often direct the costs imposed by the MQS primarily to importers, while capturing the majority of the benefits, a type of “raising rivals cost” phenomenon. However, in duopoly competition between a domestic industry and an exporter, a MQS can eliminate the incentives of the duopolists to under provide quality enhancement, potentially leading to situations where MQS can be socially beneficial.

#### **Effects of Market Power on the Size and Distribution of Subsidy Benefits:**

**The Case of Ethanol Promotion** (Tina L. Saitone and Richard J. Sexton, University of California, Davis; Steven Sexton University of California, Berkeley)

The subject of market power is discussed frequently in debates about subsidies for ethanol production, and structural conditions in the industry create a prima-facie case for concerns about market power. The researchers developed a prototype model for determining the production and price impacts and distribution of benefits from the U.S. ethanol subsidy when upstream sellers in the seed sector and downstream buyers in the processing sector may exercise market power. The impact of the subsidy is analyzed within a simulation framework for alternative levels of market power. Results demonstrate that the impacts on prices and output are limited for modest departures from competition. Distributional impacts are much greater. Seed producers and corn processors with market power are able to capture relatively large shares of the benefits from the subsidy. A perhaps surprising result is that upstream oligopoly power exercised by seed producers is prospectively as important in influencing the positive and distributional impacts of the subsidy as the much more frequently discussed and debated prospect that downstream corn processors may exercise buyer power. Writing was completed on this paper which will be presented as a selected paper at AAEE in Portland and is now posted on Ag Econ Search website.

**Contracts, Quality, and Default: Endogenizing a Buyer’s Rejection Rate** (Karen Thome and Richard J. Sexton, University of California, Davis)

For this study, Thome and Sexton developed an analytical framework to examine the issue of endogenous rejection of contracted production by buyers. Not only of relevance to U.S. producers, this phenomenon is of considerable concern in developing countries as rapid industrialization of the agricultural sector increases the incidence of contract production in these countries. The authors studied whether produce buyers might use a rejection rate that is not only dependent on product quality, but also on the market conditions they face or their capacity. Further, they explore whether rejection might be used to influence the price farmers receive in both the contract and spot markets. The spot market often does not provide incentives for high-quality production due to pooling and resulting adverse selection problems.

The study shows, however, that the spot market remains important in a setting with contracting because it determines the contract price needed to meet producers’ participation constraints. However, stochastic production of high-quality products is problematic for buyers in this setting because the buyer cannot determine *ex ante* the amount of contracts needed to maximize profits *ex post*. Moreover, the advent of contracting for high-quality production actually makes the spot market an increasingly inappropriate outlet for acquisition of high-quality product because contract producers sell exclusively low-quality production in the spot market, reducing the share of high-quality production available there, relative to an equilibrium with only the spot market. The researchers finalized a paper for selected presentation at AAEE in Portland it is now posted on Ag Econ Search website.

**Statistical Review of California Organic Agriculture** (Karen Klonsky, Kurt Richter, Marcia Kreith, University of California)

Formatting and final technical editing of “Statistical Review of California Organic Agriculture 2000-2005 (May 2007)” by Karen Klonsky and Kurt Richter occurred this quarter. This University of California Agricultural Issues Center publication quantifies the current size and growth of the organic industry in California in terms of acres, farm gate sales and number of growers statewide and by commodity, commodity group, county, and region, based on California Department of Agriculture registration data from 1999-2005. The publication has been posted on the AgMRC and AIC websites.

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#### **Outreach Talks**

In May, Rachael Goodhue gave an invited presentation titled "Meeting Quality Requirements Using Contracts: Bonuses, Penalties, and Input Provision" to researchers and industry members attending the ICAR-USDA workshop "Contract Farming: Methods and Experiences" under the India-U.S. Agricultural Knowledge Initiative in New Delhi. The talk was based in part on AgMRC project findings.

“The U.S. Fresh Produce Industry: An industry in Transition” and “Consumer Issues in Quality and Safety” were the titles of Roberta Cook’s two presentations at the UCD Postharvest Technology Short Course on June 22, 2007.

Addressing the United Produce Industry Leadership Program Fellows when they convened in Davis on June 29, 2007, Roberta Cook presented “US Fresh Produce Marketing: Growth in Value-Added Products and Services.”

#### **Materials Made Available for Print and/or Online Posting during this Quarter (partial listing)**

Effects of Milk Marketing Order Regulation on the Share of Fluid-grade Milk in the United States by Joseph V. Balagtas, Aaron Smith, and Daniel A. Sumner. Paper forthcoming in the *American Journal of Agricultural Economics*. 2007.

Dissipation of Regulatory Rents: Neglected Costs of Milk Marketing Orders, by Joseph V. Balagtas, Purdue University and Daniel A. Sumner, University of California Agricultural Issues Center working paper. June 2007.

Statistical Review of California Organic Agriculture 2000-2005 (May 2007). Karen Klonsky and Kurt Richter. University of California Agricultural Issues Center.

Stricker, Susanne, Mueller, Rolf A.E. and Sumner, Daniel A. "Marketing wine on the web." *Choices*, 2007, 22(1), pp. 31-34. <http://www.choicesmagazine.org/2007-1/foodchains/2007-1-06.htm> Magazine of AAEEA American Agricultural Economics Association.

#### **Links to Post**

**Integrated Pest Management Pest Information Platform for Extension and Education. (IPM PIPE)**  
[www.sbrusa.net](http://www.sbrusa.net) online warning system to help soybean farmers protect their crop from devastating Asian Soybean Rust (ASR). Farmers can use maps of nationwide sentinel planting results to assess likelihood of disease and whether there is need for preventative fungicide applications. Other management tools and information available on this site.

**Cultivated Wild Rice Production in California**, by Daniel Marcum. Published by University of California Division of Agriculture and Natural Resources.

**Ask a Specialist Resource**

Marcia Kreith, with assistance from Hayley Boriss and Omid Rowhani responded to the seven phoned and e-mailed questions received by AgMRC.

Roberta Cook has responded to five questions.