

Price floors in the agri-food sector: a measure of efficiency?

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The idea of introducing price floors in agricultural sectors has recently resurfaced in the public debate. A flagship measure of the Common Agricultural Policy (CAP) in the 1970s and 1980s, price floors proved to be a source of inefficiency and left bad memories behind. This note, however, shows that a price floor on raw materials can be efficient in sectors where farmers face buyers with monopsony power –namely when buyers can negatively influence prices. In the cow milk sector, on average over the period 2003-2018, processors buy milk at a price 16% below the marginal profits they make from it. A price floor indexed to international agricultural commodity prices could lead to better remuneration for farmers without necessarily harming consumers, by reducing the margins obtained by processors when buying raw materials. A price floor can also improve the efficiency of agricultural supply support policies (subsidies, trade policy, subsidised insurance). An in-depth examination of the situation in other sectors is needed to determine whether price floors should be introduced more widely.

- Whereas a price floor imposed in a competitive market is necessarily inefficient, a price floor on raw material can be efficient in sectors where farmers face monopsony power.
- In the cow milk sector (not labelled organic or *Protected Designation of Origin*), we show that French processors exercise monopsony power when purchasing raw milk, bought at a price that is 16% lower – on average over the period 2003-2018 – than its marginal contribution to their profits.
- In such sectors, a price floor indexed to international agricultural commodity prices and integrating processor manufacturing costs would lead to better remuneration for farmers and a reduction in the processor and distributor margins.
- The introduction of an efficient price floor could nevertheless destabilise a sector in the short run and reinforce the concentration at the processing level in the long run, making its effect on consumer prices uncertain.
- The farm income support provided by a price floor alone is limited by international competition. It can be supplemented by agricultural supply support measures (subsidies, trade policy) whose efficiency is enhanced, the price floor preventing such support from being captured by players further down the supply chain.
- A price floor indexed to international prices would not allow farm income smoothing, which could be achieved by introducing an insurance scheme.



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The idea of introducing price floors in agricultural sectors has recently resurfaced in public debate. Yet, price floors introduced by the Common Agricultural Policy (CAP) in the 1970s and 1980s were a source of considerable economic inefficiency, as evidenced in the dairy industry by the famous "butter mountains".

This note discusses the economic efficiency consequences of introducing price floors in the agri-food industry. *Economic efficiency* is achieved when the quantity traded on a market is such that the total surplus of the economy – i.e. the difference between the welfare received by consumers and the cost borne by producers – is maximised. Introducing a price floor affects the efficiency of a market by altering buying and selling decisions. A price floor is, therefore, a source of efficiency if it brings the quantity traded closer to the efficient quantity, and a source of inefficiency if it moves it further away.

This paper first looks at the economic inefficiency caused by the CAP policy of the 1970s-1980s, which introduced price floors in the competitive market of industrial dairy ingredients. We then show that in the presence of monopsony power – when buyers are few and can influence procurement prices – the market price is too low and restricts the quantities traded. Introducing a price floor equal to the competitive price level can then restore efficiency. We examine the causes of monopsony power in certain agri-food sectors, quantified for the cow milk industry. We then discuss the implementation details and expected benefits of introducing a price floor for raw milk in France. Finally, we analyze the complementarity of a price floor with other agricultural supply support policies (farm subsidies, trade policy).

Price floor in a competitive market: the bad memory of the "butter mountains"

To support farm incomes, the European Economic Community (EEC) introduced price floors for industrial dairy ingredients (milk powder, bulk butter) in 1968. The higher selling price led processors to increase their demand for raw milk from farmers. The measure thus achieved a goal of supporting farm incomes, by increasing production volumes and sales prices.

However, the measure was a source of economic inefficiency. Indeed, industrial dairy ingredients are standardised products, whose market prices are dictated by global supply and demand. These prices can be considered competitive and, therefore, such that the cost of the last unit produced by producers is equal to its valuation by buyers, thus guaranteeing economic efficiency.¹ In such a context, implementing price floors higher than market prices

necessarily leads to an imbalance between supply and demand. In 1983, the minimum prices imposed by the EEC exceeded world prices by 12%. To guarantee these minimum prices, the EEC was forced to intervene in these markets by buying up surpluses, which were then stored or exported at a loss. As the price floor moved further away from the world price, the imbalance between supply and demand increased, and the measure cost rose, representing 15 to 20% of the European dairy production value.² The inefficiency of the measure led the EEC to introduce raw milk production quotas in 1984. From 1992 onwards, minimum prices were gradually reduced and became inoperative in the early 2000s.

Implementing price floors above competitive prices necessarily leads to an imbalance between supply and demand.

The failure of these measures reminds that the introduction of a price floor in a competitive market is a source of economic inefficiency. Should we therefore abandon the idea of introducing price floors in agricultural sectors? In the following section, we show, on the contrary, that a price floor can be a source of efficiency when buyers are able to influence procurement price setting (*monopsony power*).

Price floor: an efficiency measure against monopsony power

Mechanisms and consequences of monopsony power. Monopsony power refers to a situation where a purchasing firm facing little competition in its upstream market (e.g., the raw milk market) can set its purchase price below the competitive price. Its presence in some agricultural sectors may justify the introduction of price floors, as explained below.

Monopsony power translates into a difference between the purchase price and the marginal cost (e.g., of a litre of raw milk) perceived by the buyer.³ In such a situation, the purchasing firm must concede a price increase if it buys an additional unit; conversely, by reducing the quantity purchased, it reduces the purchase price (of raw milk in our example). This ability to buy raw materials at a low price generates a margin for the firm. This is notably detrimental for farmers, who sell too little at too low a price.

A price floor on raw materials restores efficiency by countering monopsony power. A binding price floor

²cf. rapport de la commission d'enquête du Sénat N°341 (1991-92).

³Marginal cost is an economic concept, different from accounting unit cost. Furthermore, we ignore processing costs, which play no role in the described mechanisms. They will, however, play a role in the practical details of price floor implementation.

¹We ignore here the possible presence of externalities, notably environmental ones, discussed in the last section of this note.

neutralises monopsony power: the purchasing firm can no longer negatively influence the raw material price, and its margin decreases. In this context, the price floor is a source of efficiency gains: it increases the quantities traded, bringing the equilibrium closer to a competitive situation. Farmer remuneration increases: they sell larger quantities at higher prices.⁴

A binding price floor neutralizes monopsony power: the purchasing firm can no longer negatively influence the raw material price, and its margin decreases.

In which agri-food sectors can we fear the monopsony power? Several characteristics are conducive to the emergence of monopsony power (Sexton, 2013):

- (a) asymmetric concentration,
- (b) transportation costs and product perishability,
- (c) homogeneity of products sold.

In various agricultural sectors, raw material sales feature one or more of these characteristics. A large number of farmers often face a small number of buyers (characteristic a). Livestock products (milk, meat) or market garden products are perishable (characteristic b), creating local markets where the number of potential buyers is more limited, which is not the case for cereals, for example. Finally, many agricultural products have limited possibilities for differentiation (characteristic c) allowing buyers to put producers in competition. The importance of monopsony power therefore varies depending on the characteristics of the market, necessitating a sector-by-sector approach.

The dairy industry case. In our work (Avignon and Guigue, 2023), we estimate the margins of French dairy processors on products made from non-Organic or non - Protected Designation of Origin (PDO) - labelled cow milk for the period 2003-2018. We develop a methodology, described in Box 1, to separately estimate monopsony and monopoly margins.⁵

Distinguishing the origin of a firm's margins is crucial in determining public policy recommendations. Indeed, attributing the entire margin to monopsony power would lead to setting a price floor too high. Conversely, attributing the entire margin to monopoly power would lead to neglecting a price floor interest.⁶

In the sector studied, where characteristics (a), (b), and (c) are present, we first show that processors have, on average, *monopsony* power when purchasing raw milk. More precisely, our estimates imply that, on average over the period 2003-2018, processors buy raw milk at a price 16% below its marginal contribution to their profits. This figure hides some disparities, notably stronger monopsony power in *départements* characterised by a more concentrated processing industry.

On average over the period 2003-2018, processors bought raw milk at a price 16% below its marginal contribution to their profits.

We also show that *monopoly* power enables processors to sell dairy products at a price that exceeds — on average over the period 2003-2018 — their marginal production costs by 41%.⁷ Once again, this figure covers wide disparities between processors, with relatively low monopoly margins for many of them, but high margins for certain leaders in final product markets.

Finally, the exercise of monopsony and monopoly power varies greatly over time, in response to variations in dairy farmer production costs or industrial dairy ingredient prices (we return to this point in detail later).

If a price floor can be an efficient tool, its efficiency largely depends on the level at which the floor is set. The prices observed in international agricultural commodity markets then serve as indicators for price floor setting.

Modalities and effects of an efficient price floor

The role of international trade. International trade is a key component of agri-food sectors. It operates through the exchange of *agricultural commodities*, which refer to standardised products traded between processors and/or wholesalers.⁸ Since farmers do not have direct access to the world market, international trade results from arbitrages made by these intermediaries. These arbitrages are briefly described below and formalised in Box 2 via a theoretical model.

On the procurement side, processors and wholesalers decide between purchasing agricultural raw materials — from local farmers where they may exercise monopsony power — and purchasing agricultural commodities whose prices are set by international supply and demand. On the

⁴In a simple closed economy, consumer purchasing power also increases: they buy larger quantities at lower prices.

⁵Monopoly power refers to the situation where a firm (e.g., a dairy processor) with little competition in its downstream market (e.g., the yoghurt market) can set its selling price above the competitive price.

⁶It would be considered either inoperative or a source of inefficiency.

⁷By definition, marginal cost does not include fixed costs.

⁸These may be raw or processed products. In some sectors, agricultural raw products (e.g., cereals, fruit and vegetables) are traded internationally. In others, the raw product (e.g., raw milk) is perishable and expensive to transport, and international competition operates via the exchange of processed industrial ingredients (milk powder, butter, etc.)

Box 1 : Margins in the dairy industry - Estimation method

The analysis is based on dairy processing plant-level data, where prices and quantities of raw milk by *département* on the purchasing side, and by product on the sales side, are observed from 2003 to 2018.⁹ We restrict the analysis to cow milk products that do not have an Organic or PDO label. Margins are estimated in two stages.

(1) Estimating processing costs and margins

A "production function" approach, standard in the literature (De Loecker and Warzynski, 2012), enables us to estimate the marginal cost of processing raw milk into final and industrial products for each firm. Combined with data on fat and protein contents of raw milk and each dairy product (Depeyrot, 2010), and on prices and quantities, this method enables us to estimate the variable cost margins of dairy manufacturers.

(2) Separate identification of monopsony and monopoly margins

The existence of dairy ingredients then allows us to estimate separately monopsony margins, called *markdowns*, and monopoly margins, called *markups*. The identification leverages the fact that these ingredients are:

- substitutes for raw milk on the procurement side, and alternatives to final product markets on the sales side,
- traded at a price that firms consider to be given.

Identification is therefore based on processor arbitrage conditions when deciding to supply raw milk or ingredients on the one hand and to produce and sell final products or ingredients on the other hand. In equilibrium, firms using ingredients equalise the (observed) price of ingredients with the marginal costs of sourcing raw milk (made up of the observed raw milk price and the unobserved opportunity cost which is inversely linked to the *markdown*). Symmetrically, firms selling ingredients equalise the (observed) price of ingredients with the net marginal revenue of each final product (composed of the observed price of the final product and the unobserved opportunity cost or *markup*). These arbitrage conditions allow the separate identification of *markdowns* and *markups*.

⁹Data is provided by the Ministry of Agriculture ("Enquête Annuelle Laitière"), FranceAgriMer ("Enquête Mensuelle Laitière"), and the Ministry of Public Finances (FICUS, FARE, LIFI). Some of the data used in this work was found within the secure data environment used to access French administrative data – Centre d'accès sécurisé aux données (CASD) (Réf. 10.34724/CASD).

sales side, similarly, they decide between selling differentiated *final products* – where they may exert monopoly power – and selling agricultural commodities. In both cases, the gap between the price of the raw material and that of the commodity reflects both monopsony power exercised when purchasing raw materials transformation and/or transport costs.

As a result, defining efficient price floors requires indexing them to agricultural commodity prices and considering the transformation and/or transport costs borne by intermediaries.

Indexing a price floor to the world price of commodities helps to counter monopsony power while avoiding setting a price too high.

A price floor on the raw material indexed to the price of the agricultural commodity restores efficiency by countering monopsony power. Such a price floor leads to an increase in farmer incomes, via higher prices and volumes, whereas consumers are not necessarily affected.⁹ On the

other hand, processors are suffering a loss of the margin they previously derived from their monopsony power. The increase in sales of agricultural commodities partly offsets this margin reduction.

By reconnecting raw material prices with the market value of agricultural commodities, indexing the price floor to commodity prices serves a dual purpose. Firstly, as explained above, it counteracts monopsony power. It also ensures that the price floor is not set inefficiently high.¹⁰

The price floor must take account of processing and transport costs incurred by intermediaries. So far, we have not taken account of the costs associated with (i) transforming the raw material into an agricultural commodity and (ii) transporting the raw material and agricultural commodity. These costs, borne by intermediaries, must yet be incorporated into the definition of the price floor. They vary from one sector to another. In the dairy sector, the commodity traded is not the raw product (raw milk) but a processed product (industrial dairy ingredient). The corresponding manufacturing cost must therefore be considered when defining the price floor.

We integrate and quantify these costs in our research on the dairy industry, as explained in Box 1. Our analysis confirms that dairy processors generate, on average, margins

⁹In the theoretical framework presented in Box 2, consumers are not affected because the prices of final products remain unchanged. In practice, the dynamics of commercial negotiations between processors and retailers may call this result into question, as discussed later.

¹⁰In particular, this would not be guaranteed by a price floor based on farmers' average production costs.

Box 2 : Monopsony and monopoly power, and price floors

This box formalises the case of a firm (e.g., a dairy processor) with monopoly power over the sale of final products (e.g., yoghurt) and monopsony power over the purchase of raw materials (e.g., raw milk). This firm also sells an agricultural commodity (e.g., milk powder) at a price it considers to be given. For simplicity, we have neglected processing costs, which are included in the empirical analysis.

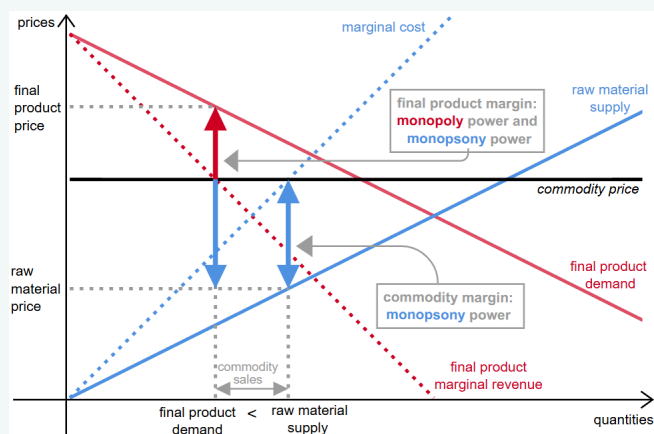


Figure 1 : Monopsony and monopoly power

Figure 1 illustrates how a firm arbitrates between output markets when allocating its purchases of raw materials, absent a price floor. The firm equalises its marginal revenue on a final product with the price of the agricultural commodity. Monopoly power then translates into a gap between the price at which the final product is sold and the commodity price. This is due to the opportunity cost of selling an additional unit of the final product, i.e. the price decrease the firm must concede to sell this unit. Such an opportunity cost is zero for agricultural commodity sales, for which the firm takes the price as given. Monopsony power is reflected in the gap between the price at which the raw material is purchased and the commodity price. It stems from the opportunity cost of buying an additional unit of raw material, i.e. the price increase the firm must concede to buy this unit. The strategic reduction in quantities traded generates monopoly margins on final product sales and monopsony margins on raw material purchases.

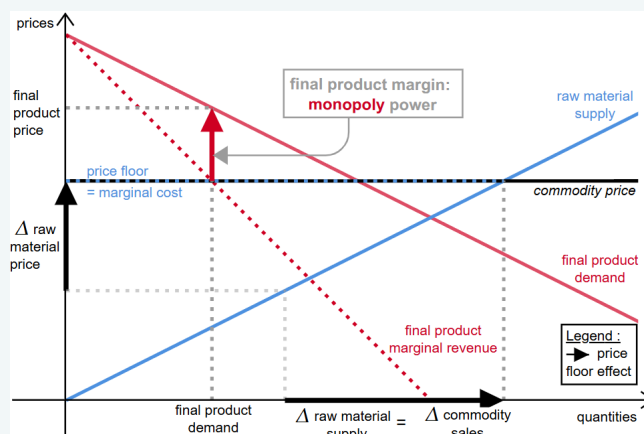


Figure 2: Price floor

Figure 2 illustrates the effects of a price floor set at an optimal level, here corresponding to the agricultural commodity price. The existence of a market where the firm has no market power creates a disconnection between the quantities of agricultural raw material purchased and final products sold, dissociating the upstream and downstream effects of a floor price:

- upstream, the firm can no longer reduce the price of raw materials. The firm increases its purchases because it no longer has any interest in reducing them;
- downstream, the firm sells its additional production on the commodity market and maintains identical prices for final products.

The price floor neutralizes *monopsony* power, without countering *monopoly* power.^a It increases farmer income without affecting consumers.

^aIn formal terms, the price floor redefines marginal cost, with the part of the curve that remains upward sloping being out of frame.

thanks to their monopsony and monopoly power. A price floor indexed to the price of dairy ingredients (butter-powder quotation) subtracted from an indicator of the processing cost (of raw milk as an industrial ingredient) of the processors can therefore be efficient.

How would an industry adapt a price floor introduction?

The dairy industry case. Upstream in the industry, an increase in the raw milk price would stimulate the supply of raw milk by wiping out monopsony margins. This could help halt the decline in milk production observed in re-

cent years, including in the most productive regions.

Processors that generate significant monopoly margins should be able to absorb a part of the cost increase induced by a price floor introduction. However, those with lower margins would necessarily need to pass on this cost increase to maintain their viability. Passing the cost increase onto the prices of dairy ingredients is not feasible because these prices are dictated by global supply and demand. However, passing it on to the wholesale prices of final products is possible, given that these prices are subject to regular commercial negotiations between proces-

sors and retailers. Our research studies the transmission of these shocks within the sector.

Introducing a price floor could destabilize the dairy sector in the short run and reinforce concentration in the processing market in the long run.

Our analysis shows that the processor margins fluctuate with economic conditions (industrial ingredient prices, raw milk production costs). When farmer costs rise, processors absorb part of the shock through raw milk price increases. On average, processors partially offset the decrease in their purchasing margin by increasing their margin on the sale of final products. Downstream, the shock transmission is explained by the shifting balance of power in negotiations between processors and retailers. Our results show that during commercial negotiations, retailers concede price increases on their purchases, which can then be partially passed on to the prices of final products. Therefore, in practice, the price floor could lead to increases in consumer prices, moderated by reductions in the margins of processors and retailers.

Less efficient processors not adept at negotiating with retailers could see their viability threatened by the price floor introduction. Although a source of efficiency, this reallocation mechanism could destabilize the sector in the short run and necessitate support measures. In the long run, it could reinforce concentration in the processing market. Some processors could then see their position strengthened relative to retailers, with potential repercussions for consumers.

The next section outlines why public authorities might seek stronger support and stabilisation of farm incomes than what is allowed by a price floor indexed to agricultural commodity prices. They could then resort to other measures, whose efficiency can be enhanced by a price floor introduction.

Complementarity between price floors and other public policies

The limitations of agricultural commodity prices as an efficient price indicator justify public intervention. Agricultural commodity prices are dictated by international competition. It reflects the efficient price only in the absence of market failure. However, farming is a source of externalities, notably in terms of the environment and health. These can be positive (landscape maintenance, carbon storage, water cycle regulation, etc.) or negative (greenhouse gas and other pollutant emissions, biodiversity loss, etc.). Their importance varies depending on the sector and practices. Agricultural commodity prices in the

European Union (EU), dictated by international competition, do not necessarily reflect efficient prices.

The EU wants to encourage environmentally-friendly farming practices, which typically involve higher production costs. If the environmental standards imposed in the origin countries of products imported into the EU are relatively less ambitious, then agricultural commodity prices are too low. European policy can then intervene in two ways:

- (i) stimulating local supply through subsidies,
- (ii) regulating imported supply via trade policy (tariffs, standards).

A price floor would improve the efficiency of the EU agricultural supply management policy. By correcting certain externalities, the measures mentioned above can be sources of efficiency. However, they also have a cost for European consumers, which may be indirect in the case of subsidies, via the financing of the CAP through taxation, or direct in the case of a restrictive import policy, via the higher cost of food products. A price floor in agricultural sectors exposed to monopsony power would improve the efficiency of these policies, by neutralising *incidence effects* on the purchase of agricultural raw materials, where subsidies can be partially captured by processors with market power (see Box 3).

Stimulating local supply through subsidies leads to a cost-price reduction for farmers: the quantity farmers supply is greater for a given price. Regulating imported supply via trade policy makes imports more expensive by distorting international competition.

An efficient price floor could enhance agricultural supply management policies by neutralising the incidence effects through which processors and retailers capture a part of the benefits from these policies.

Upstream, both measures have similar effects. They lead to an increase in demand for local raw materials by enhancing the competitiveness of European agricultural supply compared to the rest of the world. This adjustment increases farm income, to an extent that depends on the presence of a binding price floor indexed to the market price of the commodity:

- absent a binding price floor, processors increase their monopsony margins in response to one or both of these measures, which weakens the ability of the measures to support local supply.
- With a binding price floor, monopsony power is eliminated, restoring the ability of the measures to support local supply.

Box 3 : Mechanism and quantification of the impact of subsidies in the dairy industry

Mechanism In the presence of monopsony power, a subsidy paid to farmers can be captured by the downstream part of the supply chain. This mechanism, known as incidence, is the following: a buyer exercising monopsony power can *adjust its price downwards for each additional euro of subsidy paid to the seller*. Using subsidies is thus costly and limited in supporting farm income. A price floor, by eliminating monopsony power, neutralises this phenomenon.^a Subsidies can then support farm incomes more efficiently.

Quantification We analyse the adjustment in the price of milk resulting from a variation in the average unit cost of farmers (IPAMPA: Cow Milk), at constant dairy ingredient prices. This adjustment is estimated for the price of raw cow milk, not labelled Organic or PDO, for the period 2003-2018. Our estimates show that a €1 fall in the cost of production per litre of milk results in a €0.66 fall in the raw milk price. Assuming that the raw milk price similarly responds to a variation in farmer production costs regardless of its origin (input prices or subsidies), this figure gives us an idea of the incidence of a subsidy variation. It quantifies a *short-run* incidence of a *marginal variation* in farm subsidies^b Commercial negotiations between manufacturers and retailers then dictate how the subsidies incidentally received are shared. Our results suggest that retailers capture the bulk of these subsidies.^c

^aAbsent a price floor, and with perfectly elastic demand for commodities, the impact comes solely from monopsony power.

^bWe disregard the differences between coupled and decoupled subsidies insofar as they both affect the average cost.

^cThese subsidies may be passed on to consumers via price reductions, a point which is beyond the scope of our study.

Downstream, the two measures have different effects. Stimulating local supply has little impact on final product markets, as surpluses are sold in ingredient markets. In contrast, regulating imported supply leads to an increase in the price of final products.

A price floor indexed to agricultural commodity prices must be supplemented by a system smoothing farm incomes. A specific feature of the agricultural sector, which has so far been overlooked in our analysis, is that it is subject to major fluctuations. On the supply side, farmer costs fluctuate with the price of inputs (energy, animal feed, seeds, fertilisers, plant protection products, etc.) and weather and sanitary hazards. On the demand side, the price of raw materials responds to fluctuations in agricultural commodity prices. Such commodity prices fluctuate with supply conditions in producing countries, similarly subject to the previously mentioned uncertainties, and changes in trade policy. The resulting variations in farm income depend on the sector-specific characteristics.

In some sectors, monopsony power plays a counter-cyclical role. For the dairy sector, although our results indicate that the price of raw milk is on average below the competitive price, they also show that processors:

- increase the price of raw milk and decrease their monopsony margin when dairy farmers face a surge in production costs (for constant dairy ingredient prices);
- increase the price of raw milk but also their monopsony margin when industrial ingredient prices rise (for constant farmer production costs).¹¹

As a result, raw milk prices in the industry are close to the competitive price when dairy ingredient prices are low or when French dairy farmer costs are high. Conversely, raw milk prices are far from the competitive price when dairy ingredient prices are high or farmer costs are low. The monopsony margin is therefore high in favourable periods for the sector, preventing farmers from benefiting from them, but is lower in unfavourable periods, thus mitigating the fall in farm incomes.

With a price floor indexed to international commodity prices, the price of raw milk would be higher on average, but farmers could be exposed to greater income fluctuations, justifying smoothing mechanisms.

In this context, a price floor indexed to the price of dairy ingredients would be all the more constraining and efficient the higher the commodity price and the lower the farmer costs, and vice versa. The price of raw milk would be higher on average, but farmers could be exposed to greater income fluctuations. Farm income smoothing schemes may therefore be necessary. If standard insurance markets are insufficient, counter-cyclical aid and subsidised insurance policies can be developed. This exists in the EU to insure harvests, but not other types of production or income. Yet, this has been the case since the 1930s in the United States, an interventionist country in agri-food matters. Price floors whose implementation details vary across sectors but similar to those recom-

They incorporate the prices of dairy ingredients (butter-powder quotation), the production costs of farmers (IPAMPA - Cow Milk), and processor production costs (evaluated and occasionally revised by the processors themselves). The weight of each indicator in the price formulas is the subject of regular negotiations between processors and farmers.

¹¹The formulas for raw milk prices partly explain this phenomenon.

mended in this note have been introduced in agricultural markets. They are accompanied by mechanisms enabling farmers to insure their selling price, turnover, or margin from the State (Grandjean and Courleux, 2014). Once again, these measures are complementary. On one hand, the insurance system guarantees farm income smoothing that would not be achieved by a price floor alone. On the other hand, the price floor neutralises the incidence phenomenon. Absent a price floor, processors could reduce the purchase price of raw materials, by exploiting the capacity of the insurance system to support farm incomes.

Conclusion

A price floor on raw materials can be efficient in sectors where farmers face buyers with monopsony power, i.e. buyers capable of imposing a price below the competitive price. Introducing a price floor that does not exceed the competitive price can lead to better remuneration for farmers without harming consumers, by reducing the margins of processors and retailers. However, monopsony power is not necessarily present in all sectors. In a study of the margins of French dairy processors (non-Organic or PDO-labelled cow milk) for 2003-2018, we show that dairy processors exercise, on average, monopsony power when purchasing raw milk. An in-depth examination of the situation in other sectors is necessary.

In sectors with monopsony power, a price floor aimed at economic efficiency would be indexed to agricultural commodity prices. Considered on its own, such a price floor would support farm incomes, yet with a limited impact. However, the value of a price floor is enhanced by its complementarity with other measures to support agricultural supply (subsidies, trade policy, insurance schemes).

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