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Cooperatives in the Wine Sector in Argentina: Can They Improve Prices Paid to Farmers?

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Abstract

Many agricultural sectors are characterised by increasing market imbalances. Processing and retailing industries may acquire dominant market positions, while farmers are likely to receive lower and/or non-transparent prices for their products. Collective action through different kinds of organisations such as cooperatives is a potential tool for improving farmers' economic performance.

Even after controlling for product heterogeneity, differences in prices paid for agricultural goods and services have been explained by factors like imperfect information, transactions costs associated to the exchange of goods or services, spatially uneven competition, as well as by differences in the objective function and ownership structure among agricultural firms. While the first three reasons belong to the theory of price dispersion, the other arguments make part of the competitive yardstick theory of the cooperative firm. The main claim of the competitive yardstick theory is that in a situation of monopsonistic pricing cooperatives are one way to improve market efficiency. The idea is that cooperatives' services at cost discipline the service offers of non-cooperative service providers (investment oriented firms) thereby contributing to relatively higher producer prices.

This article analyses if cooperatives can pay better prices to farmers than investment-oriented firms do in the non-varietal wine market in Mendoza, Argentina. An econometric model was developed to analyse cooperatives' effect on prices paid to farmers. Our sample consists of 4,076 wine selling transactions observed in six departments of two regions in Mendoza during 2007–2012. The effect of cooperatives on prices was analysed on two levels. Firstly, the model analysed the existence of a price differential paid to farmers according to the type of buyer, cooperative or investment-oriented firms. Secondly, the model assessed the effect of cooperative strength (measured by surface area, members, grape and wine handled) on prices at departmental and regional level. We find that cooperatives pay lower prices to producers than investment-oriented firms do. However, in the region with the lower grape production, cooperatives have a higher market share and they positively influence prices compared to the other region. We discuss these results taking into account the specific context of each region.

Keywords: Cooperatives, market efficiency, rural development

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