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NAREA Awards

*Outstanding Master's Thesis Award*

## **The Law and Economics of “Consumer Only” Financed Export Subsidies: A Context for the WTO Panel on Canadian Dairy Pricing Policy**

Isabel Schleup

Cornell University  
Advisor: Harry de Gorter

The recent World Trade Organization (WTO) Dispute Settlement Panel on Canadian dairy policy provides the background and the motivation for the thesis. The Panel finds Canada in violation of commitments in the Agreement on Agriculture (the Agreement) of the Uruguay Round by providing producer financed export subsidies for dairy products.

The Agreement imposed limits and reduction commitments on taxpayer and producer financed export subsidies only (in terms of both the value of export subsidies and the quantity of exports subsidized). The thesis focuses on consumer only financed export subsidies that are not recognized by the WTO. It is demonstrated that this new type of export subsidy circumvents the guidelines established in the Agreement and is more trade distorting than a taxpayer financed export subsidy. A producer levy with a consumer only financed export subsidy is identical to a consumer only financed export subsidy alone (for the same amount of producer welfare).

A consumer only financed export subsidy does not involve taxpayer costs, but instead transfers revenue directly from consumers to producers. Price discrimination and a revenue pooling system administered by State Trading Enterprises (STEs)<sup>1</sup> are prerequisites for this new type of export subsidy. The economics of similar dairy pricing practices adopted by California, the U.S. Federal Order pooling price policy, and the New Zealand Dairy Board are also investigated.

The findings of this study show that the ruling of the Panel is inconsistent with the economic definition of an export subsidy developed in this thesis. The Panel's decision has direct implications for Canada, and for other dairy and commodity policies worldwide. Recommendations are provided on how the WTO could deal with consumer only financed export subsidies and, for example, how the General Agreement on Tariffs and Trade (GATT) text could be modified to include this new type of export subsidy.

Canada's dairy policy involves border protection, a production quota, end-use pricing, price discrimination and revenue pooling. The component-based empirical model assesses the different options for Canada to eliminate export subsidies to comply with the Panel's rulings and the economic definition of a consumer only financed export subsidy. It turns out that Canadian producers are better off when revenue pooling is removed or when the production quota is reduced by the volume of the milk classes that provide for the implicit export subsidy.

Canada's dairy policy is government regulated (through STEs) and therefore subject to the reduction commitments on export subsidies made in the Agreement. It is shown how price discrimination in combination with revenue pooling practices give a competitive advantage to STEs in the world dairy market. The thesis also addresses how their behavior differs from commercial firms and what the implications are for the next GATT Round. Suggestions are provided on how the definition of an STE in the GATT could be altered to scrutinize consumer only financed export subsidies.

<sup>1</sup> State Trading Enterprises are also referred to as single-desk buying or selling agents.

## ***Outstanding Master's Thesis Award***

# **Assessing the Market Potential for Character Marked Wood Furniture**

**Guanming Shi**

**University of Vermont  
Advisor: Qingbin Wang**

While wood is a critical resource for many small businesses and rural communities, a major problem faced by the wood product industry is a shortage of high-grade hardwood lumber and inefficient use of low-grade hardwood timber. This study evaluates the market potential for character marked hardwood furniture with four specific objectives: (a) to evaluate consumer preferences for hardwood chairs made from low-grade hardwood with character marks (knots, pith, etc), (b) to determine the tradeoffs between price and other attributes, (c) to identify socioeconomic factors that determine consumer acceptance of such chairs, and (d) to evaluate strategies for increasing consumer acceptance of character marked wood furniture. While a conjoint analysis is conducted to examine consumer preferences for four major attributes of hardwood chairs, parametric and non-parametric

econometric approaches are used to address other economic and marketing questions.

This study based on a survey conducted in four northeast states in 1998 indicates that there is likely a niche market for character marked wood furniture with attractive design and competitive price and guarantee policy. While the conjoint analysis indicates that design is the most important attribute, followed by price, density of character marks and guarantee policy, additional statistical analyses suggest that consumer preferences are significantly affected by socio-demographic factors. Individuals also tend to have different responses to alternative descriptions and messages regarding the character marked hardwood chairs: messages associated with place and construction of the furniture tend to be influential but the use of environmental messages should be selective.

## ***Master's Thesis Award of Merit***

# **The Economics of 2-Tier Tariff-Rate Import Quotas: An Empirical Application to the United States Dairy Industry**

**Devry Seanna Boughner**

**Cornell University  
Advisor: Harry de Gorter**

The *Agreement on Agriculture* in the Uruguay Round implemented 2-tier tariff-rate import quotas (TRQs). Import quotas guaranteed minimum market access with commitments for future expansion. Tariffs were meant to maintain protection but also included commitments for their reduction over time. Hence, TRQs were meant to serve as a transition policy to pure tariffication, with free trade as the ultimate goal.

This study develops a theoretical model to analyze the

market effects and welfare economics of TRQs under alternative policy combinations of tariffs and quotas, and of varying market conditions. Alternative methods for allocating rights to import quotas, including import and/or export licenses and export country allocations, is shown to result in inefficiencies due to rent seeking and quota under-fill.

A trade policy model of the U.S. dairy market is developed to analyze the economics of a TRQ scheme. The

effects of the quota and each tariff are isolated to understand the implications of each policy instrument under alternative trade policy liberalization scenarios. In the case of U.S. dairy, empirical results indicate that a re-

duction in 2<sup>nd</sup> tier tariffs has a greater impact on increasing market access than scheduled increase in import quotas.

### *Master's Thesis Award of Merit*

## **Underemployment Dynamics of Women in the United States**

**Qiuyan Wang**

**The Pennsylvania State University  
Advisor: Jill Findeis**

Underemployment remains a serious problem among traditionally disadvantaged female populations of the United States. Increased female labor force participation in the United States and current debates over welfare reform have refocused attention on the centrality of adequate employment for anti-poverty policy. To be fully informed, new policies need to be grounded in a better understanding of the determinants and dynamics of adequate employment, especially among economically at-risk women and single women with children. A useful way to analyze employment adequacy is through the concept of underemployment. In addition to the traditionally-defined unemployed, the underemployed include those who would like to work but have given up looking for a job, part-time workers who would like to work more hours, and those working for poverty-level wages.

Using data from the annual March Current Population Surveys (CPS), this thesis pursues four research objectives: First, to determine trends in the prevalence of un-

deremployment and its specific forms, and how these trends differ across sociodemographic groups for the period 1968–98. Second, to determine those individual, household and labor market characteristics that explain outcomes of women in the labor market. Third, to create a matched CPS file linking data for individuals across years and to use this file to describe the dynamics of year-to-year transitions in employment status. Fourth, to use logistic and multinomial logit models to determine the effects of individual, household and labor market characteristics on transitions in employment status, and how these effects change over time. The specific focus of this objective is on the transitions women make between “out of labor force,” “in the labor force,” underemployment and adequate employment. Comparisons are made between metro and nonmetro areas that typically have both higher rates of unemployment and a greater proportion of their labor force classified among the “working poor.”

### *Distinguished Member Award*

**Conrado M. (Bobby) Gempesaw**

Bobby Gempesaw has been involved with NAREA since his M.S. program at West Virginia University and his Ph.D. program at the Pennsylvania State University. He joined the University of Delaware faculty as assistant professor in the Department of Food and Resource Economics in 1985, and earned rapid promotion to full professor through a combination of excellent teaching and a remarkable publication record. He served as department chair for two terms, and is now Vice Provost for Academic Programs and Planning at the University of Delaware.

Bobby served NAREA as editor of the *Northeastern Journal of Agricultural and Resource Economics*, eliciting a significant increase in submission numbers and quality, broadening the journal's disciplinary focus, readership and reputation, and overseeing its change of name to the *Agricultural and Resource Economics Review*. He subsequently served as NAREA's president-elect, president and past president, bringing a special energy to the annual meetings held during his tenure. His loyal work for NAREA over the years has helped this Association thrive.

## ***Distinguished Member Award***

### **John M. Halstead**

John Halstead has served the Association in a variety of ways, but in particular as Secretary-Treasurer, 1996–99. The job of Secretary-Treasurer is particularly important in that it requires considerable effort while not having the professional benefits of such high profile jobs as President or Editor. John performed well as Secretary-Treasurer and left the Association in good economic condition with no unpaid page charges when he passed the books on to his successor.

In addition to his term as Secretary/Treasurer, John also was a Director from 1990 to 1993, served on the Editorial Council of the *Agricultural and Resource Eco-*

*nomics Review* from 1991 to 1993, on the Membership Committee (1990–1992), Finance Committee (1999–2002), and was Local Arrangements Chair for the 1991 New Hampshire NAREA Meetings. He has published 4 articles and 12 abstracts in the *Agricultural and Resource Economics Review* (and its predecessors) and made 15 presentations at annual NAREA conferences.

In total, John has been an active and contributing member of the Association for many years, and made a distinguished contribution in his role as Secretary/Treasurer. He is well deserving of the title Distinguished Member.

## ***Journal Article of the Year for 1999***

# **Examining Packer Choice of Slaughter Cattle Procurement and Pricing Methods**

**Oral Capps, Jr., H. Alan Love, Gary W. Williams, and Wendi L. Adams**

Using daily fed cattle purchase transaction records collected by the Packers and Stockyards Program over the period April 1992 to April 1993, we identify characteristics associated with the choices of fed cattle procurement and pricing methods. The methodology involves the use of a multinomial logit model.

Regional concentration; processing capacity; number

of head per lot; average weight per head; cattle type; yield grade; quarterly grade, seasonality, and distance from packing plants play a significant role in determining the methods of procurement and pricing chosen by packers. The method chosen by packers to procure fed cattle also affects the choice of a given pricing method.