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**The Effect of Reducing Supply Chain Barriers on Fresh Food
Prices: Evidence from a Natural Experiment**

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Abstract

The market for fresh food is often characterized by a large number of intermediaries delivering the product from the farmer to the retailer. The existence of these intermediaries, especially the informal ones, is often claimed to introduce market frictions that push fresh food prices up. We test the hypothesis that scaling down these frictions reduces the level of prices. Our data comes from a policy reform in Turkey concerning the supply chain regulations in the market for fresh fruits and vegetables. Starting from January 1st, 2012, a new law is enacted (i) to remove informal intermediaries, (ii) to reduce the farmers' cost of access to formal intermediaries such as wholesale market places, and (iii) to provide the farmers with the option to directly sell their products to retailers -- bypassing the wholesale intermediaries. This policy reform resembles a natural experiment that exogenously reduces the supply chain barriers in the market for fresh fruits and vegetables. Using quasi-experimental methods, we show that the policy reform has strikingly reduced the prices in the wholesale market, while there is almost no price effect in the retail market. This suggests that a non-negligible fraction of the wholesale markups has been transferred to the retailers. Ignoring the general equilibrium effects, consumers have not received any direct benefits. Our results, as a whole, suggest that there is significant asymmetry between the pricing behavior of retailers, wholesalers, and farmers in the market for fresh fruits and vegetables.

Keywords: Supply chain reform, fresh food prices, markups, asymmetric pricing, quasi-experimental design.

JEL classification: C21, L52, Q11, Q18.