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STRATEGIC LABELING AND TRADE OF GMOs

Luc Veyssiere*
Graduate Student
Department of Agricultural Economics
University of Nebraska-Lincoln
27 H.C. Filley Hall
Lincoln, NE 68583-0922

Phone: (402) 472-0279
Fax: (402) 472-3460
veyluc@hotmail.com

Konstantinos Giannakas
Associate Professor
Department of Agricultural Economics
University of Nebraska-Lincoln
216 H.C. Filley Hall
Lincoln, NE 68583-0922

Phone: (402) 472-2041
Fax: (402) 472-3460
kgiannakas@unl.edu

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*Corresponding author.

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STRATEGIC LABELING AND TRADE OF GMOS

Abstract: This paper systematically analyzes the strategic effects of national regulatory decisions on labeling of GM products and identifies the determinants of the non-cooperative Nash equilibrium labeling regimes in a small number of producing countries that compete for access in the world market for an agricultural product.

STRATEGIC LABELING AND TRADE OF GMOS

The emergence of agricultural biotechnology and the subsequent introduction of genetically modified organisms (GMOs) into the food system have been among the most controversial issues surrounding the increasingly scrutinized agri-food system. While agricultural producers have responded to the agronomic benefits associated with the new technology and have been adopting GM crops in increasing numbers, consumers around the world have expressed an aversion to food products containing GM ingredients. Consumer opposition to GM products varies significantly both between and within countries and is founded on health, environmental, ethical and/or philosophical concerns about agricultural biotechnology (Hobbs and Plunkett, 2002; Giannakas and Fulton, 2002).

Similarly diverse have been the countries' regulatory responses to GMOs with the issue of labeling being a focal point in policy forums around the world. For instance, while the United States (US) oppose the labeling of GM products arguing the "substantial equivalence" between the current, producer-oriented GM products and their conventional counterparts, the European Union has introduced mandatory labeling of GM products on the basis of its "precautionary principle" and the expressed consumer aversion to these products (see Sheldon (2004) for a comprehensive review of the policy debate between the EU and the US on the regulation of GMOs. On issues related to the labeling of GM products see also Caswell (1998), Runge and Jackson (2000), Crespi and Marette (2003), Fulton and Giannakas (2004)).

Consumer opposition to GM products (or its luck thereof) is often cited as the primary force behind countries' decisions on the labeling of these products. While consumer reaction is certainly an important factor, there are other parameters that are also significant in shaping the regulatory responses to the products of biotechnology. In particular, given the high volume of trade of agricultural and food products and the intense competition between the major suppliers for access in the world market, a country's decision on its labeling regime can be expected to affect and be affected by the regulatory and labeling regimes of the other major suppliers of the product(s) in question. Interestingly, this strategic interdependence between the major producers of agri-food products has, to our knowledge, been ignored by the relevant literature.

The objective of this paper is to explicitly consider the effect of the strategic interdependence between countries on their regulatory responses to products of biotechnology. In particular, the paper analyzes the strategic effects of national regulatory decisions on labeling of GM products and identifies the determinants of the non-cooperative Nash equilibrium labeling regimes in a small number of producing countries that supply the world market for an agricultural product.

The rest of the paper is organized as follows. Section II discusses the methodology and assumptions employed in our analysis. Sections III and IV examine the producer and consumer decisions under alternative labeling regimes. Section V derives the equilibrium conditions in the world market under various labeling regimes and different scenarios on the market power of the trading sector. Section VI derives the payoff matrix of the game and identifies the conditions that facilitate alternative Nash equilibria in labeling strategies. Section VII summarizes and concludes the paper.

II. METHODOLOGY AND ASSUMPTIONS

Our stylized model considers three producing regions that supply the world market of a product. Two of these regions (termed hereafter as “Countries 1 and 2” or “Players 1 and 2”), have adopted the GM technology and seek to determine their labeling regime (i.e., whether to label their GM and conventional produce or not). The third producing region represents the rest of the producing regions in the world (termed hereafter as “rest of the world” or “R.O.W.”). The R.O.W. has not adopted the new technology and supplies the world market with non-labeled conventional products.

As mentioned previously, the focus of our analysis is on the strategic interdependence between Countries 1 and 2 and its effect on the formulation of their labeling strategies. This strategic interaction is modeled as a strategic game where the two GM producing countries determine their labeling regimes non-cooperatively. In particular, Countries 1 and 2 decide on whether to label their GM and conventional products or not independently but aware that their labeling strategies affect each others payoffs. The objective of each GM producing region is to determine the labeling regime that maximizes the economic welfare of its producers. Since all regions export their produce to the world market, maximizing producer welfare is equivalent to maximizing total economic surplus in these countries.

Once the regulatory regimes have been determined, farmers in each producing region decide on which crop to grow and consumers make their purchasing decisions observing the types and prices of products supplied to the world market. Our analysis assumes fixed proportions between the farm output and the final consumer product. To retain tractability, all processing and marketing costs are normalized to zero.

It is important to note that the labeling decision of a country affects the nature of its produce as well as the nature of products supplied to the world market. For instance, while the adoption of mandatory labeling results in the creation of two separate supply channels for GM and conventional products, the absence of a labeling requirement results in the GM and conventional crops/products being marketed together as a non-labeled good. Table 1 shows the nature of the products supplied to the world market under the different combinations of labeling strategies of Countries 1 and 2.

Table 1: Products Supplied Under Different Labeling Regimes

		Country 2	
		Labeling	**No Labeling**
Country 1	**Labeling**	*Scenario 1* GM-labeled product, Conventional-labeled product & Non-labeled product	*Scenario 4* GM-labeled product, Conventional-labeled product & Non-labeled product
	No Labeling	*Scenario 3* GM-labeled product, Conventional-labeled product & Non-labeled product	*Scenario 2* Non-labeled product

As shown in Table 1, four distinct scenarios emerge:

Scenario 1: Countries 1 and 2 label their produce and two separate supply channels for GM and conventional products emerge. Note that, since all GM products are required to be labeled as such, non-labeled products supplied by the R.O.W. will be (correctly) perceived by consumer as being conventional (non-GM).

Scenario 2: No country labels its products. GM and conventional products are marketed together as a non-labeled good. Since GM products are credence goods (Darby and Karni, 1973), consumers cannot observe the (GM or conventional) nature of the product supplied.

Scenario 3: Country 2 adopts mandatory labeling, while Country 1 does not label its products. Under this scenario, there are three products supplied to the market: the GM-labeled product, the non-labeled product, and the conventional-labeled product.

Scenario 4: Country 1 adopts mandatory labeling, while Country 2 does not label its products. The products supplied in this case are the same as those under Scenario 3.

As mentioned previously, the objective of each GM producing country is to determine the labeling regime that maximizes the welfare of its producers. For a Nash equilibrium in labeling strategies to exist, the equilibrium labeling strategy of each country should be the best response to the other country's equilibrium labeling strategy. Put in a different way, a profile of labeling strategies is a Nash equilibrium, when no country has incentives to deviate, i.e., no country can enhance the welfare of its producers by changing its labeling policy. In this context, to evaluate the plausibility of the different scenarios in constituting a Nash equilibrium, we need to determine the welfare of each country's producers for each of the four scenarios identified above.

Note that, in each scenario, different actors pursuing different objectives are making different decisions. For instance, producers in each supplying country decide whether to grow GM crops or not, while consumers in the world market decide whether to buy these products or not. To capture the partial adoption of the GM technology in the major producing regions around the world, this paper explicitly accounts for producer heterogeneity in terms of the returns they receive from the different crops. Similarly, to capture the diversity in consumer attitudes toward the products of biotechnology expressed in survey and various stated consumer preference studies around the world, the paper follows Giannakas and Fulton (2002) and explicitly accounts for heterogeneous consumer preferences for GM and conventional products.

III. PRODUCTION DECISIONS

This section analyzes farmer production decisions in the counties that have adopted the GM technology under the different scenarios on labeling regimes presented in Table 1. The models of producer heterogeneity developed here are similar in spirit to the models by Giannakas (2002) and Fulton and Giannakas (2004) that analyze production decisions under imperfect enforcement of intellectual property rights (IPRs) and different regulatory and labeling regimes for products of biotechnology, respectively, in the context of a country that has adopted the GM technology.

Production Decisions in Countries Having Adopted the New Technology

Mandatory Labeling: Production Decisions in Country i

As mentioned previously, producers in each producing region are assumed to differ in the net returns receive from the different crops. Let $A \in [0, \text{A}]$ denote the attribute that differentiates producers. For tractability, producers are assumed to be uniformly distributed between 0 and A. Consider a farmer with differentiating attribute A in country i ($i \in \{1,2\}$), that decides whether to produce the GM crop, the conventional crop or an alternative crop. The net returns to the production of the different crops are given by:

$\pi_{gm} = P_{gm}^{S} - (\alpha_i A + w_{gmi}^{l})$ If a unit of the GM crop is produced

$\pi_t = P_t^{S} - (\beta_i A + w_{ti}^{l})$ If a unit of conventional crop is produced

$\pi_a = 0$ If a unit of alternative crop is produced

Without loss of generality, farmers are assumed to produce only one unit, and the net returns to the alternative crop are normalized to zero. P_{gm}^{S} and P_t^{S} stand for the unit farm prices of the GM and conventional crops, respectively, with $P_{gm}^{S} < P_t^{S}$ (i.e., the conventional crop receives a premium over the GM crop). w_{gmi}^{l} and w_{ti}^{l} denote the base per unit costs associated with the production of the GM and conventional crops, respectively, under the labeling regime. The base costs of production are common to all producers and encompass such things as the cost of seeds and pest management. To capture the producer orientation of the first generation of GM products, w_{ti}^{l} is assumed to exceed w_{gmi}^{l}.

The parameters α_i and β_i are cost enhancement factors associated with the production of GM and conventional crops in Country *i*, respectively. Thus, the terms $\alpha_i A$ and $\beta_i A$ capture the producer heterogeneity in terms of the costs associated with the production of the two crops which stems from differences in location and quality of the land, education, experience, management skills etc. Note that the total costs associated with the unit production of the GM and conventional crops for the producer with differentiating attribute *A* are given by $\alpha_i A + w_{gmi}^l$ and $\beta_i A + w_{ti}^l$, respectively.

To capture the observed coexistence of markets for conventional and GM products, α_i is assumed greater than β_i with the difference $\alpha_i - \beta_i$ capturing the cost effectiveness of the GM technology. The smaller is the difference $\alpha_i - \beta_i$, the more cost effective is the GM technology and the greater is the share of producers that find it optimal to grow the GM crop.

A farmer's production decision is determined by the relative returns associated with the different crops. Figure 1 graphs π_{gm} and π_t and illustrates the farmer production decisions when the price and cost parameters are such that both crops enjoy positive production shares (i.e., the GM technology is non-drastic; see below). The farmer with differentiating attribute A_{gmi} (determined by the intersection of π_{gm} and π_t) is indifferent between producing the conventional and GM crops – the net returns associated with the production of these crops are the same. Farmers located to the left of A_{gmi} (i.e. producers with $A \in [0, A_{gmi})$) find it profitable to produce GM crops. Since producers have been assumed to be uniformly distributed within 0 and A, A_{gmi} gives the quantity of the GM crop produced in Country i. Mathematically, A_{gmi} is given by:

$$A_{gmi} = \frac{P_{gm}^S - w_{gmi}^l - P_t^S + w_{ti}^l}{(\alpha_i - \beta_i)} \qquad \textbf{(1)}$$

Similarly the farmer with differentiate attribute A_{Ti} is indifferent between producing the GM and the alternative crops. A_{Ti} is determined by the intersection of the π_{gm} and π_s curves in Figure 1, and gives the total quantity of the GM and conventional crops supplied by Country i as:

$$A_{Ti} = \frac{P_t^S - w_{ti}^l}{\beta_i} \qquad \textbf{(2)}$$

The quantity of the conventional crop produced by Country i is then given by A_{Ti} - A_{gmi} , or:

$$A_{ti} = \frac{P_t^S - w_{ti}^l}{\beta_i} - \frac{P_{gm}^S - w_{gmi}^l - P_t^S + w_{ti}^l}{(\alpha_i - \beta_i)} \qquad \textbf{(3)}$$

Analyzing equations (1)-(3) shows that if $P_{gm}^S - w_{gmi}^l \le P_t^S - w_{ti}^l$ the adoption of the GM technology will be zero (i.e., the GM technology will be ineffective), while if $\left(P_{gm}^S - w_{gmi}^l\right) \ge \frac{\alpha_i}{\beta_i}\left(P_t^S - w_{ti}^l\right)$ all producers will adopt the GM technology (i.e., the GM technology will be drastic). To focus on the empirically relevant case of partial adoption of the GM technology (i.e., the case in which the GM technology is non-drastic), our analysis assumes that $\left(P_t^S - w_{ti}^l\right) < \left(P_{gm}^S - w_{gmi}^l\right) < \frac{\alpha_i}{\beta_i}\left(P_t^S - w_{ti}^l\right)$.

Aggregate producer welfare under the labeling regime is given by the area underneath the effective net returns curves (shown by the bold kinked line in Figure 1) and equals:

$$\Pi_i^l = \left(P_{gm}^S - w_{gmi}^l\right)\frac{\left(P_{gm}^S - w_{gmi}^l - P_t^S + w_{ti}^l\right)}{2(\alpha_i - \beta_i)} + \frac{\left(P_t^S - w_{ti}^l\right)^2}{2\beta_i} \qquad \textbf{(4)}$$

Aggregate producer welfare in each producing region can then be written as:

$$\Pi_1^l = \left(P_{gm}^S - w_{gm1}^l\right)\frac{\left(P_{gm}^S - w_{gm1}^l - P_t^S + w_{t1}^l\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_t^S - w_{t1}^l\right)^2}{2\beta_1} \qquad \textbf{(5)}$$

$$\Pi_2^l = \left(P_{gm}^S - w_{gm2}^l\right)\frac{\left(P_{gm}^S - w_{gm2}^l - P_t^S + w_{t2}^l\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_t^S - w_{t2}^l\right)^2}{2\beta_2} \qquad \textbf{(6)}$$

No Labeling: Production Decisions in Country i

Under a no labeling regime, the farm price for GM and conventional crops is the same and the net returns function for a producer with differentiating attribute A becomes:

$\pi_{gm} = P_{nl}^S - (\alpha_i A + w_{gmi}^{nl})$ If a unit of GM crop is produced

$\pi_t = P_{nl}^S - (\beta_i A + w_{ti}^{nl})$ If a unit of conventional crop is produced

$\pi_a = 0$ If a unit of alternative crop is produced

where P_{nl}^S is the farm price when the GM and conventional crops are marketed together. w_{gmi}^{nl} and w_{ti}^{nl} are the per unit base costs of producing the GM and conventional crops, respectively, under a no labeling regime. Note that the base costs of producing the two crops differ under the two labeling regimes due to the segregation costs associated with mandatory labeling.

The quantities of the different products supplied under a no labeling regime can be derived by setting $P_{gm}^S = P_t^S = P_{nl}^S$ in equations (1), (2) and (3) i.e.,

$$A_{gmi} = \frac{w_{ti}^{nl} - w_{gmi}^{nl}}{(\alpha_i - \beta_i)} \quad \textbf{(7)}$$

$$A_{ti} = \frac{P_{nl}^S - w_{ti}^{nl}}{\beta_i} - \frac{w_{ti}^{nl} - w_{gmi}^{nl}}{(\alpha_i - \beta_i)} \quad \textbf{(8)}$$

$$A_{nli} = \frac{P_{nl}^S - w_{ti}^{nl}}{\beta_i} \quad \textbf{(9)}$$

Figure 2 graphs the net return functions and the quantities of the different crops under the no labeling regime. To allow for positive production shares of the two crops, our analysis focuses on the case where $P_{nl}^S - w_{ti}^{nl} < P_{nl}^S - w_{gmi}^{nl} < \frac{\alpha_i}{\beta_i}\left(P_{nl}^S - w_{ti}^{nl}\right)$. Aggregate producer welfare in Country i under a no labeling regime is given by the area underneath the bold kinked curve in Figure 2 and equals:

$$\Pi_i^{nl} = \left(P_{nl}^S - w_{gmi}^{nl}\right)\frac{\left(w_{ti}^{nl} - w_{gmi}^{nl}\right)}{2(\alpha_i - \beta_i)} + \frac{\left(P_{nl}^S - w_{ti}^{nl}\right)^2}{2\beta_i} \quad \textbf{(10)}$$

Production Decisions in the Rest Of the World

Since, by assumption, the R.O.W. has not adopted the GM technology, the production decision of its farmers is reduced to the choice between the conventional crop and its alternative. Given that the R.O.W. does not label its conventional product, the net returns function for a farmer with differentiating attribute A is given by:

$\pi_t = P_{nl}^S - (\beta_3 A + w_{t3})$ If a unit of conventional crop is produced

$\pi_a = 0$ If a unit of alternative crop is produced

The quantity of non-labeled conventional product supplied by the R.O.W. is given by:

$$A_{nl3} = \frac{P_{nl}^S - w_{t3}}{\beta_3} \qquad \textbf{(11)}$$

Figure 3 depicts the determination of A_{nl3}.

Determination of the World Supplies

The total world supply for each product under the different labeling scenarios outlined in Table 1 is derived through the summation of the relevant quantities supplied by each producing region. In Scenario 1, for instance, two separate supply channels for GM and conventional products emerge. Recall that, since all GM products are segregated and labeled as such, products supplied by the R.O.W. would be correctly perceived by consumers as being conventional (i.e., non-GM). In this context, the summation of the GM quantities supplied by Countries 1 and 2 give the total supply of the GM product; while the summation of the conventional produce supplied by each region gives the total supply of the conventional product. The determination of aggregate supplies for the GM and conventional products is illustrated in Figure 4. The mathematical expressions for the total supplies under all four scenarios are presented below.

World Supplies under Scenario 1 (Both countries label their products)

Conventional Crop

$$P_t^{S1} = aA_t^{S1} + aA_{gm}^{S1} + bw_{t1}^l + cw_{t2}^l + dw_{t3} \qquad \textbf{(12)}$$

GM Crop

$$P_{gm}^{S1} = aA_t^{S1} + (g+a)A_{gm}^{S1} + (b-h)w_{t1}^l + (c-i)w_{t2}^l + dw_{t3} + hw_{gm1}^{l1} + iw_{gm2}^{l1} \quad \textbf{(13)}$$

where $a = \frac{\beta_1\beta_2\beta_3}{\beta_2\beta_3 + \beta_1\beta_3 + \beta_1\beta_2}$, $b = \frac{\beta_2\beta_3}{\beta_2\beta_3 + \beta_1\beta_3 + \beta_1\beta_2}$, $c = \frac{\beta_1\beta_3}{\beta_2\beta_3 + \beta_1\beta_3 + \beta_1\beta_2}$

$d = \frac{\beta_1\beta_2}{\beta_2\beta_3 + \beta_1\beta_3 + \beta_1\beta_2}$, $g = \frac{(\alpha_1-\beta_1)(\alpha_2-\beta_2)}{(\alpha_1-\beta_1)+(\alpha_2-\beta_2)}$, $h = \frac{(\alpha_2-\beta_2)}{(\alpha_1-\beta_1)+(\alpha_2-\beta_2)}$,

and $i = \frac{(\alpha_1-\beta_1)}{(\alpha_1-\beta_1)+(\alpha_2-\beta_2)}$

It should be pointed out that, in the presence of market power by the life science sector, the base cost of producing the GM crop varies with the configuration of labeling strategies employed by Countries 1 and 2. In particular, it can be shown that when both countries label their products

$w_{gm}^l = \frac{\chi_{gm}}{(\chi_{gm}+1)}(P_{gm}^S - P_t^S) + \frac{\chi_{gm}}{(\chi_{gm}+1)}w_t^l + \frac{1}{(\chi_{gm}+1)}c$ where c is the constant marginal cost of producing the GM technology, and χ_{gm} stands for the conjectural variation elasticity of the life science sector. In the absence of labels in any one country (i.e., Scenarios 2, 3 and 4 in Table 1), the base cost becomes

$w_{gm}^{nl} = \frac{\chi_{gm}}{(\chi_{gm}+1)}w_t^{nl} + \frac{1}{(\chi_{gm}+1)}c$.

World Supply under Scenario 2 (No country labels its products)

In the absence of labeling, only one supply channel emerges (see Figure 5). The aggregate world supply of the non-labeled product is given by the summation of the quantities produced in the three regions and equals:

$$P_{nl}^{S2} = aA_{nl}^{S2} + bw_{t1}^{nl} + cw_{t2}^{nl} + dw_{t3} \quad \textbf{(14)}$$

World Supplies under Scenarios 3 and 4 (One country labels its products)

In these scenarios, only one of the countries that have adopted the GM technology labels its products. When only Country 1(2) labels its products, the quantities of GM and conventional products supplied by this country correspond to the world supplies of these products. The aggregate supply of the non-labeled product is then determined by the quantities produced by Country 2(1) and the R.O.W. in Scenario 4(3). Specifically, the world supplies under Scenarios 3 and 4 are:

Conventional Crop in Scenario 3

$$P_t^{S3} = \beta_2 A_t^{S3} + \beta_2 A_{gm}^{S3} + w_{t2}^{l} \quad \textbf{(15)}$$

GM Crop in Scenario 3

$$P_{gm}^{S3} = \alpha_2 A_{gm}^{S3} + \beta_2 A_t^{S3} + w_{gm2}^{l3} \quad \textbf{(16)}$$

Non-labeled Crop in Scenario 3

$$P_{nl}^{S3} = mA_{nl}^{S3} + nw_{t1}^{nl} + ow_{t3} \quad \textbf{(17)}$$

With $m = \dfrac{\beta_1\beta_3}{\beta_1 + \beta_3}$, $n = \dfrac{\beta_3}{\beta_1 + \beta_3}$ and $o = \dfrac{\beta_1}{\beta_1 + \beta_3} w_{t3}$

Conventional Crop in Scenario 4

$$P_t^{S4} = \beta_1 A_t^{S4} + \beta_1 A_{gm}^{S4} + w_{t1}^{l} \quad \textbf{(18)}$$

GM Crop in Scenario 4

$$P_{gm}^{S4} = \alpha_1 A_{gm}^{S4} + \beta_1 A_t^{S4} + w_{gm1}^{l4} \quad \textbf{(19)}$$

Non-labeled Crop in Scenario 4

$$P_{nl}^{S4} = pA_{nl}^{S4} + qw_{t2}^{nl} + rw_{t3} \quad \textbf{(20)}$$

With $p = \dfrac{\beta_2\beta_3}{\beta_2 + \beta_3}$, $q = \dfrac{\beta_3}{\beta_2 + \beta_3}$ and $r = \dfrac{\beta_2}{\beta_2 + \beta_3}$

Figure 6 depicts the determination of aggregate supplies under Scenario 4.

IV. CONSUMPTION DECISIONS AND DETERMINATION OF GLOBAL DEMANDS

This section focuses on consumer purchasing decisions under each of the scenarios presented in Table 1. For simplicity, a unique consuming region encompassing the world consumers is considered. The methodological framework utilized in the analysis of consumer behavior derives from the models of vertical product differentiation developed by Giannakas and Fulton (2002) and Fulton and Giannakas (2004). This framework of analysis allows for heterogeneous consumer preferences for GM and conventional products.

Consumption Decisions under Scenario 1 (Both countries label their products)

Let $c \in [0, C]$ be the attribute that differentiates consumers. Its value differs according to consumer capturing the diversity in consumer attitudes towards GM and conventional products. Consider a consumer with differentiating attribute *c*. Assuming that this consumer buys one unit of either the GM, the conventional or a substitute product and that this purchase represents a small share of his total budget, his utility can be expressed as:

$U_{gm} = U - P_{gm}^{D1} - \lambda c$	If a unit of GM product is consumed
$U_t = U - P_t^{D1} - \mu c$	If a unit of conventional product is consumed
$U_s = U - P_s$	If a unit of a substitute product is consumed

U is a per unit base level of utility associated with the consumption of a product and it is common to all consumers. P_{gm}^{D}, P_t^{D} and P_s denote the retail prices of the GM, the conventional and the substitute product, respectively. λ and μ are positive utility discount factors associated with the consumption of the GM and conventional products, respectively, so that the terms λc and μc represent the utility discount from the consumption of the GM and conventional products for the consumer with differentiating attribute *c*. To capture the expressed consumer opposition to GM products, we assume that $\lambda > \mu$ with the difference $\lambda - \mu$ capturing the level of consumer aversion to GM products. To save on notation, we assume that all consumers place the same value on the substitute product.

A consumer's purchasing decision is determined by the relative utilities associated with the consumption of the different products. Figure 7 graphs U_{gm}, U_t and U_s and illustrates the consumer purchasing decisions for the case in which all products enjoy positive shares of the market. The consumer with differentiating attribute c_{gm} (determined by the intersection of U_{gm} and U_t) is indifferent between purchasing the conventional product and its GM counterpart – the utility associated with the consumption of these products is the same.

Consumers located to the left of c_{gm} (i.e., consumers with differentiating attribute $c \in [0, c_{gm})$) prefer the GM product while consumers located to the right of c_{gm} opt buying either the conventional product (consumers with $c \in (c_{gm}, c_T]$) or the substitute product (consumers with $c \in (c_T, C]$). If consumers are uniformly distributed between 0 and C, c_{gm} gives the quantity of the GM product consumed in the world market under Scenario 1, x_{gm}^{S1}. Therefore, the demand for the GM product is given by:

$$x_{gm}^{S1} = \frac{P_t^{D1} - P_{gm}^{D1}}{\lambda - \mu} \qquad \textbf{(21)}$$

The total quantity of GM and conventional products demanded in the world market is given by:

$$x_T^{S1} = \frac{P_s - P_t^{D1}}{\mu} \qquad \textbf{(22)}$$

while, subtracting x_{gm}^{S1} from x_T^{S1} gives the total demand for the conventional product as:

$$x_t^{S1} = \frac{P_s - P_t^{D1}}{\mu} - \frac{P_t^{D1} - P_{gm}^{D1}}{\lambda - \mu} \qquad \textbf{(23)}$$

The inverse consumer demands for the GM and conventional products can then be written as:

$$P_{gm}^{D1} = P_s - \mu x_t^{S1} - \lambda x_{gm}^{S1} \qquad \textbf{(24)}$$

$$P_t^{D1} = P_s - \mu x_t^{S1} - \mu x_{gm}^{S1} \qquad \textbf{(25)}$$

Note that, due to their vertical product differentiation, for both the GM and conventional products to enjoy positive consumer demands, the price of the substitute has to be greater than the price of the conventional product which, in turn, has to be greater than the price of the GM product. Thus, to allow for both GM and conventional products to enjoy positive market shares when Countries 1 and 2 label their products, we assume that $P_s > P_t^{D1} > P_{gm}^{D1}$.

Consumption Decisions under Scenario 2 (No country labels its products)

In this scenario, GM and conventional products are marketed together as a non-labeled good. Consumers have the choice between the non-labeled product and the substitute and the utility function becomes:

$E(U_{nl}) = U - P_{nl}^{D2} - \phi c$ If a unit of non-labeled product is consumed

$U_s = U - P_s$ If a unit of the substitute product is consumed

where P_{nl}^{D2} is the retail price of the non-labeled product, and ϕ is the discount factor associated with its consumption. Due to the credence nature of the GM product, consumers cannot distinguish between the GM and conventional products. Since consumers are uncertain about the nature of the non-labeled product, its consumption is associated with an expected utility (Giannakas and Fulton, 2002).

Assuming that consumers have rational expectations, the utility derived from the consumption of the non-labeled product is proportional to the global rate of adoption of the GM product. The greater is the production share of the GM product, ψ, the greater is the perceived probability that the non-labeled product is genetically modified, and the lower is the utility associated with its consumption. The utility discount factor associated with the consumption of the non-labeled product, ϕ, is given by:

$$\phi = \psi\lambda + (1-\psi)\mu = \psi(\lambda - \mu) + \mu \quad \textbf{(26)}$$

where $\psi = \frac{A_{gm/nl}^{S2}}{A_{nl}^{S2}}$ with $A_{gm/nl}^{S2}$ being the quantity of GM product supplied by all countries that do not label their products, and A_{nl}^{S2} being the total quantity of the non-labeled product (which includes the non-labeled production by the R.O.W.). The parameter ψ can be rewritten as:

$$\psi = \frac{1}{A_{nl}^{S2}}\left(ew_{t1} - ew_{gm1} + fw_{t2} - fw_{gm2}\right) \text{ with, } e = \frac{1}{(\alpha_1 - \beta_1)} \text{ and } f = \frac{1}{(\alpha_2 - \beta_2)} \quad \textbf{(27)}$$

Figure 8 graphs $E(U_{nl})$ and U_s as well as the determination of the consumer demand for the non-labeled product, x_{nl}^{S2}, when $P_s > P_{nl}^{D2}$. Formally, x_{nl}^{S2} is given by:

$$x_{nl}^{S2} = \frac{P_s - P_{nl}^{D2}}{\psi(\lambda - \mu) + \mu} \quad \textbf{(28)}$$

and its inverse form can be written as:

$$P_{nl}^{D2} = P_s - (\lambda - \mu)\psi x_{nl}^{S2} - \mu x_{nl}^{S2} \quad \textbf{(29)}$$

Note that, in the absence of labeling, the global production share of the GM product affects the consumer demand – the consumer demand in the absence of labels is directly related to the supply conditions in the market. The greater is the global rate of adoption of the new technology, the lower is the market demand for the non-labeled product (on this issue see Giannakas and Fulton (2002) and Fulton and Giannakas (2004)).

Consumption Decisions under Scenarios 3 and 4 (One country labels its products)

Under Scenarios 3 and 4 there are four products in the market and the consumer utility becomes:

$U_{gm} = U - P_{gm}^{D} - \lambda c$ If a unit of GM product is consumed

$E(U_{nl}) = U - P_{nl}^{D} - \phi' c$ If a unit of non-labeled product is consumed

$U_t = U - P_t^{D} - \mu c$ If a unit of conventional product is consumed

$U_s = U - P_s$ If a unit of the substitute product is consumed

where $P_s > P_t^D > P_{nl}^D > P_{gm}^D$ and $\phi' \neq \phi$ because $\psi' \neq \psi$. Figure 9 graphs U_{gm}, $E(U_{nl})$, U_t and U_s.

Note that the global production share of the GM product differs under Scenarios 3 and 4 since the country not labeling its produce is different in each case. For instance, when only Country 2 labels its products (Scenario 3), ψ_3 is given by:

$$\psi_3 = \frac{e}{A_{nl}^{S3}}\left(w_{t1}^{nl} - w_{gm1}^{nl}\right) \quad \textbf{(30)}$$

while when only Country 1 labels its products (Scenario 4), ψ becomes:

$$\psi_4 = \frac{f}{A_{nl}^{S4}}\left(w_{t2}^{nl} - w_{gm2}^{nl}\right) \quad \textbf{(31)}$$

The consumer demands for the different products when only one country labels its produce are:

$$x_{gm} = \frac{P_{nl}^{D} - P_{gm}^{D}}{(1-\psi)(\lambda-\mu)} \tag{32}$$

$$x_{nl} = \frac{P_{t}^{D} - P_{nl}^{D}}{\psi(\lambda-\mu)} - \frac{P_{nl}^{D} - P_{gm}^{D}}{(1-\psi)(\lambda-\mu)} \tag{33}$$

$$x_{t} = \frac{P_{s} - P_{t}^{D}}{\mu} - \frac{P_{t}^{D} - P_{nl}^{D}}{\psi(\lambda-\mu)} \tag{34}$$

The inverse form of these demands is then:

$$P_{gm}^{D} = P_s - \mu x_t - [\mu + \psi(\lambda-\mu)]x_{nl} - \lambda x_{gm} \tag{35}$$

$$P_{nl}^{D} = P_s - \mu x_t - [\mu + \psi(\lambda-\mu)]x_{nl} - [\mu + \psi(\lambda-\mu)]x_{gm} \tag{36}$$

$$P_{t}^{D} = P_s - \mu x_t - \mu x_{nl} - \mu x_{gm} \tag{37}$$

The relevant expressions for the demands under Scenario 3(4) can be obtained by substituting ψ_3 (ψ_4) for ψ in equations (32)-(37).

V. MARKET OUTCOMES UNDER THE DIFFERENT LABELING SCENARIOS

In this section the market outcomes for the four scenarios are established based on the results derived previously. Utilizing the supply and demand expressions derived in the previous two sections, a simple, stylized four-region trade model is developed for each scenario. The equilibrium conditions determine the prices and quantities of the relevant products as well as the welfare of the groups involved.

Market Outcomes under Scenario 1

Figure 10 depicts the configuration of the world market under Scenario 1 when the trading sector is perfectly competitive and trading costs are normalized to zero. In this case, two distinct supply channels provide GM and conventional products to consumers in the world market and the prices paid by consumers equal to those received by farmers (recall the assumption of fixed proportions and the normalization of all processing and marketing costs to zero), i.e.,

$$P_{gm}^{D1} = P_{gm}^{S1} \tag{38}$$

$$P_{t}^{D1} = P_{t}^{S1} \tag{39}$$

The market clearing condition implies that:

$$A_{gm}^{S1} = x_{gm}^{S1} = x_{gm}^{e1} \quad \textbf{(43)}$$

$$A_t^{S1} = x_t^{S1} = x_t^{e1} \quad \textbf{(44)}$$

where x_{gm}^{e1} and x_t^{e1} are the quantities of GM and conventional products traded in the world market, respectively.

When the trading sector is able to exercise market power both when buying and when selling conventional and GM products, the equilibrium quantities traded in the world market are determined by the equality of the "marginal revenues" and "marginal expenditures" as perceived by the trading firms in each market, i.e.,

$$x_{gm}^{e1}: MR_{gm} = ME_{gm} \Rightarrow P_{gm}^{D1} - \lambda\theta_{\mathrm{gm}} x_{gm}^{e1} = P_{gm}^{S1} + (g+a)\varepsilon_{gm} x_{gm}^{e1} \quad \textbf{(45)}$$

$$x_t^{e1}: MR_t = ME_t \Rightarrow P_t^{D1} - \mu\theta_t x_t^{e1} = a\varepsilon_t x_t^{e1} + P_t^{D1} \quad \textbf{(46)}$$

where θ_{gm} and θ_t denote the demand conjectural variation elasticities of the trading sector on the markets for GM and conventional products, respectively, and reflect the market power of the trading sector when selling these products downstream. Similarly, the parameters ε_{gm} and ε_t are the supply conjectural variation elasticities of the trading sector capturing the market power exercised by trading firms when procuring the GM and conventional crops from producers. These elasticities take values between 0 and 1, with the value of 1 corresponding to a monopoly (monopsony) and a zero value corresponding to a perfectly competitive trading sector.

Substituting the expressions for the derived demands (equations (24) and (25)) and supplies (equations (12) and (13)) for the relevant parameters in equations (45) and (46), and solving the system of equations we get the equilibrium quantities in the markets for GM and conventional products as:

$$\begin{aligned} x_{gm}^{e1} &= \frac{(\mu\theta_t + a\varepsilon_t)}{D} P_s + \frac{h(a+\mu) + (h-b)(\mu\theta_t + a\varepsilon_t)}{D} w_{t1}^{l} + \frac{i(a+\mu) + (i-c)(\mu\theta_t + a\varepsilon_t)}{D} w_{t2}^{l} \\ &- \frac{d(\mu\theta_t + a\varepsilon_t)}{D} w_{t3} - \frac{h(\mu\theta_t + a\varepsilon_t + (a+\mu))}{D} w_{gm1}^{l1} - \frac{i(\mu\theta_t + a\varepsilon_t + (a+\mu))}{D} w_{gm2}^{l1} \end{aligned} \quad \textbf{(47)}$$

and

$$x_t^{e1} = \frac{\left[(g+a)\varepsilon_{gm} + \lambda\theta_{gm} + g + (\lambda - \mu)\right]}{D} P_s - \frac{b\left[(g+a)\varepsilon_{gm} + \lambda\theta_{gm} + g + (\lambda - \mu)\right] + h(a+\mu)}{D} w_{t1}^l$$
$$- \frac{c\left[(g+a)\varepsilon_{gm} + \lambda\theta_{gm} + g + (\lambda - \mu)\right] + i(a+\mu)}{D} w_{t2}^l - \frac{d\left[(g+a)\varepsilon_{gm} + \lambda\theta_{gm} + g + (\lambda - \mu)\right]}{D} w_{t3} \quad \textbf{(48)}$$
$$+ \frac{h(a+\mu)}{D} w_{gm1}^{l1} + \frac{i(a+\mu)}{D} w_{gm2}^{l1}$$

with $D = \left((g+a)(\varepsilon_{gm}+1) + \lambda(1+\theta_{gm})\right)\left(\mu(\theta_t+1) + a(\varepsilon_t+1)\right) - (a+\mu)^2$

Substituting equations (47) and (48) into the expressions for farm prices in equation (12) and (13), we get the equilibrium farm prices in the presence of market power by the trading sector as:

$$P_{gm}^{S1*} = ax_t^{e1} + (g+a)x_{gm}^{e1} + (b-h)w_{t1}^l + (c-i)w_{t2}^l + dw_{t3} + hw_{gm1}^{l1} + iw_{gm2}^{l1} \quad \textbf{(49)}$$

$$P_t^{S1*} = ax_t^{e1} + ax_{gm}^{e1} + bw_{t1}^l + cw_{t2}^l + dw_{t3} \quad \textbf{(50)}$$

The aggregate producer welfare in Country *i* under Scenario 1, can be expressed as:

$$\Pi_i^{l1*} = \left(P_{gm}^{S1*} - w_{gmi}^{l1}\right)\frac{\left(P_{gm}^{S1*} - w_{gmi}^{l1}\right) - \left(P_t^{S1*} - w_{ti}^l\right)}{2(\alpha_i - \beta_i)} + \frac{\left(P_t^{S1*} - w_{ti}^l\right)^2}{2\beta_i} \quad \textbf{(51)}$$

Market Outcomes under Scenario 2

Figure 11 depicts the configuration of the world market under Scenario 2, when the trading sector is perfectly competitive. Since no country labels its products in this case, there is only one supply channel and the market clearing condition implies that:

$$A_{nl}^{S2} = x_{nl}^{S2} = x_{nl}^{e2} \quad \textbf{(52)}$$

where x_{nl}^{e2} is the equilibrium quantity of non-labeled product traded in the world market.

When the trading sector can exercise market power both when selling and buying the non-labeled product, the equilibrium x_{nl}^{e2} is determined by:

$$x_{nl}^{e2} : MR_{nl} = ME_{nl} \Rightarrow P_{nl}^{D2} - \psi_2(\lambda - \mu)(\theta_{nl} - \varepsilon_{nl})x_{nl}^{e2} - \mu\theta_{nl}x_{nl}^{e2} = P_{nl}^{D2} + a\varepsilon_{nl}x_{nl}^{e2} \quad \textbf{(53)}$$

where θ_{nl} and ε_{nl} are the conjectural variation elasticities of the trading sector on the demand and supply sides of the market, respectively. Following the same procedure outlined in the previous section, the equilibrium quantity is given by:

$$x_{nl}^{e2} = \frac{1}{\mu(\theta_{nl}+1)+a(\varepsilon_{nl}+1)} P_s - \frac{e(\lambda-\mu)(\theta_{nl}-\varepsilon_{nl}+1)+b}{\mu(\theta_{nl}+1)+a(\varepsilon_{nl}+1)} w_{t1}^{nl} + \frac{e(\lambda-\mu)(\theta_{nl}-\varepsilon_{nl}+1)}{\mu(\theta_{nl}+1)+a(\varepsilon_{nl}+1)} w_{gm1}^{nl}$$
$$- \frac{f(\lambda-\mu)(\theta_{nl}-\varepsilon_{nl}+1)+c}{\mu(\theta_{nl}+1)+a(\varepsilon_{nl}+1)} w_{t2}^{nl} + \frac{f(\lambda-\mu)(\theta_{nl}-\varepsilon_{nl}+1)}{\mu(\theta_{nl}+1)+a(\varepsilon_{nl}+1)} w_{gm2}^{nl} - \frac{d}{\mu(\theta_{nl}+1)+a(\varepsilon_{nl}+1)} w_{t3} \quad \textbf{(54)}$$

The equilibrium price of the non-labeled product and producer welfare in Country i are then:

$$P_{nl}^{S2*} = a x_{nl}^{e2} + b w_{t1}^{nl} + c w_{t2}^{nl} + d w_{t3} \quad \textbf{(55)}$$

$$\Pi_i^{nl2*} = \left(P_{nl}^{S2*} - w_{gmi}^{nl}\right)\frac{\left(w_{ti}^{nl} - w_{gmi}^{nl}\right)^2}{2(\alpha_i - \beta_i)} + \frac{\left(P_{nl}^{S2*} - w_{ti}^{nl}\right)^2}{2\beta_i} \quad \textbf{(56)}$$

Market Outcomes under Scenarios 3 and 4

Figure 12 depicts the case in which only Country 1 labels its products (i.e., Scenario 4). As shown in this Figure, this scenario involves the emergence of three distinct supply channels: one for the GM, one for the conventional, and one for the non-labeled products. The market clearing conditions imply that:

$$x_{gm}^{S4} = A_{gm}^{S4} = x_{gm}^{e4} \quad \textbf{(57)}$$

$$x_t^{S4} = A_t^{S4} = x_t^{e4} \quad \textbf{(58)}$$

$$x_{nl}^{S4} = A_{nl}^{S4} = x_{nl}^{e4} \quad \textbf{(59)}$$

while the equilibrium quantities of GM, conventional and non-labeled products traded in the world market (x_{gm}^{e4}, x_t^{e4} and x_{nl}^{e4}, respectively) in the presence of market power by the trading sector are given by:

$$x_{gm}^{e4}: MR_{gm} = ME_{gm} \Rightarrow P_{gm}^{D4} - \lambda\theta_{\mathrm{gm}} x_{gm}^{e4} = P_{gm}^{D4} + \alpha_1 \varepsilon_{gm} x_{gm}^{e4} \quad \textbf{(60)}$$

$$x_t^{e4}: MR_t = ME_t \Rightarrow P_t^{D4} - \mu\theta_t x_t^{e4} = P_t^{D4} + \beta_1 \varepsilon_t x_t^{e4} \quad \textbf{(61)}$$

$$x_{nl}^{e4}: MR_{nl} = ME_{nl} \Rightarrow$$
$$\Rightarrow P_{nl}^{D4} - \mu\theta_{nl} x_{nl}^{e4} - \psi_4(\lambda-\mu)(\theta_{nl} - \varepsilon_{nl}) x_{nl}^{e4} + \psi_4(\lambda-\mu) x_{gm}^{e4}\varepsilon_{nl} = P_{gm}^{D4} - p\varepsilon_{nl} x_{nl}^{e4} \quad \textbf{(62)}$$

Following the same procedure established previously, we derive the equilibrium quantities of the three products as:

$$x_{gm}^{e4}=\frac{f(\mu\theta_t+\beta_1\varepsilon_t+\mu+\beta_1)(\lambda-\mu)}{D_4}w_{gm2}^{nl}-\frac{(\mu\theta_t+\beta_1\varepsilon_t+\mu+\beta_1)f(\lambda-\mu)}{D_4}w_{t2}^{nl}$$
$$-\frac{(\mu\theta_t+\beta_1\varepsilon_t+\mu+\beta_1)}{D_4}w_{gm1}^{l4}+\frac{(\mu+\beta_1)}{D_4}w_{t1}^{l}-\frac{\mu(\mu\theta_t+\beta_1\varepsilon_t)}{D_4}x_{nl}^{e4} \quad \textbf{(63)}$$

$$x_t^{e4}=\frac{(\lambda\theta_{gm}+\alpha_1\varepsilon_{gm}+(\lambda-\mu)+(\alpha_1-\beta_1))}{D_4}P_s-\frac{(\lambda\theta_{gm}+\alpha_1\varepsilon_{gm}+\lambda+\alpha_1)}{D_4}w_{t1}^{l}+\frac{(\mu+\beta_1)}{D_4}w_{gm1}^{l4}$$
$$+\frac{f(\mu+\beta_1)(\lambda-\mu)}{D_4}w_{t2}^{nl}-\frac{f(\mu+\beta_1)(\lambda-\mu)}{D_4}w_{gm2}^{nl4}-\frac{\mu(\lambda\theta_{gm}+\alpha_1\varepsilon_{gm}+(\lambda-\mu)+(\alpha_1-\beta_1))}{D_4}x_{nl}^{e4} \quad \textbf{(64)}$$

$$x_{nl}^{e4}=\frac{Y_1+\sqrt{(Y_1)^2-4X_1Z_1}}{2X_1} \quad \textbf{(65)}$$

where $X_1=\mu\theta_{nl}+\mu+p\varepsilon_{nl}+p-\mu\frac{\mu(\lambda\theta_{gm}+\alpha_1\varepsilon_{gm}+\mu\theta_t+\beta_1\varepsilon_t+(\lambda-\mu)+(\alpha_1-\beta_1))}{D_4}$,

$$Y_1=P_s-\mu\left(\begin{array}{l}\frac{(\lambda\theta_{gm}+\alpha_1\varepsilon_{gm}+(\lambda-\mu)+(\alpha_1-\beta_1))}{D_4}P_s-\frac{(\lambda\theta_{gm}+\alpha_1\varepsilon_{gm}+(\lambda-\mu)+(\alpha_1-\beta_1))}{D_4}w_{t1}^{l}\\+\frac{f(\mu\theta_t+\beta_1\varepsilon_t)(\lambda-\mu)}{D_4}w_{gm2}^{nl4}-\frac{(\mu\theta_t+\beta_1\varepsilon_t)f(\lambda-\mu)}{D_4}w_{t2}^{nl}-\frac{(\mu\theta_t+\beta_1\varepsilon_t)}{D_4}w_{gm1}^{l4}\end{array}\right)$$
$$-qw_{t2}^{nl}-rw_{t3}-(fw_{t2}^{nl}-fw_{gm2}^{nl4})(\lambda-\mu)(\theta_{nl}-\varepsilon_{nl}+1)-\frac{\mu(\mu\theta_t+\beta_1\varepsilon_t)}{D_4}(fw_{t2}^{nl}-fw_{gm2}^{nl4})(\lambda-\mu)(\varepsilon_{nl}-1)$$

$$Z_1=f(\lambda-\mu)(1-\varepsilon_{nl})(w_{t2}^{nl}-w_{gm2}^{nl4})\left(\begin{array}{l}\frac{f(\mu\theta_t+\beta_1\varepsilon_t+\mu+\beta_1)(\lambda-\mu)}{D_4}w_{gm2}^{nl4}\\-\frac{(\mu\theta_t+\beta_1\varepsilon_t+\mu+\beta_1)f(\lambda-\mu)}{D_4}w_{t2}^{nl}\\-\frac{(\mu\theta_t+\beta_1\varepsilon_t+\mu+\beta_1)}{D_4}w_{gm1}^{l4}+\frac{(\mu+\beta_1)}{D_4}w_{t1}^{l}\end{array}\right),$$

and $D_4=(\lambda\theta_{gm}+\alpha_1\varepsilon_{gm}+\lambda+\alpha_1)(\mu\theta_t+\beta_1\varepsilon_t+\mu+\beta_1)-(\mu+\beta_1)^2$.

The farm prices of the three products are then:

$$P_t^{S4*}=\beta_1x_t^{e4}+\beta_1x_{gm}^{e4}+w_{t1}^{l} \quad \textbf{(66)}$$

$$P_{nl}^{S4*}=px_{nl}^{e4}+qw_{t2}^{nl}+rw_{t3} \quad \textbf{(67)}$$

$$P_{gm}^{S4*} = \alpha_1 x_{gm}^{e4} + \beta_1 x_t^{e4} + w_{gm1}^{l4} \quad \textbf{(68)}$$

and aggregate producer welfare in Countries 1 and 2 is given by:

$$\Pi_i^{l4*} = \left(P_{gm}^{S4*} - w_{gm1}^{l4}\right)\frac{\left(P_{gm}^{S4*} - w_{gm1}^{l4}\right) - \left(P_t^{S4*} - w_{t1}^{l}\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_t^{S4*} - w_{t1}^{l}\right)^2}{2\beta_1} \quad \textbf{(69)}$$

$$\Pi_2^{nl4*} = \left(P_{nl}^{S4*} - w_{gm2}^{nl}\right)\frac{\left(w_{t2}^{nl} - w_{gm2}^{nl}\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_{nl}^{S4*} - w_{t2}^{nl}\right)^2}{2\beta_2} \quad \textbf{(70)}$$

Following the same process we can get the equilibrium quantities and prices under Scenario 3 as:

$$\begin{aligned} x_{gm}^{e3} &= \frac{e(\mu\theta_t + \beta_2\varepsilon_t + \mu + \beta_2)(\lambda - \mu)}{D_3} w_{gm1}^{nl} - \frac{(\mu\theta_t + \beta_2\varepsilon_t + \mu + \beta_2)e(\lambda - \mu)}{D_3} w_{t1}^{nl} \\ &- \frac{(\mu\theta_t + \beta_2\varepsilon_t + \mu + \beta_2)}{D_3} w_{gm2}^{l3} + \frac{(\mu + \beta_2)}{D_3} w_{t2}^{l} - \frac{\mu(\mu\theta_t + \beta_2\varepsilon_t)}{D_3} x_{nl}^{e3} \end{aligned} \quad \textbf{(71)}$$

$$\begin{aligned} x_t^{e3} &= \frac{(\lambda\theta_{gm} + \alpha_2\varepsilon_{gm} + (\lambda - \mu) + (\alpha_2 - \beta_2))}{D_3} P_s - \frac{(\lambda\theta_{gm} + \alpha_2\varepsilon_{gm} + \lambda + \alpha_2)}{D_3} w_{t2}^{l} + \frac{(\mu + \beta_2)}{D_3} w_{gm2}^{l3} \\ &+ \frac{e(\mu + \beta_2)(\lambda - \mu)}{D_3} w_{t1}^{nl} - \frac{e(\mu + \beta_2)(\lambda - \mu)}{D_3} w_{gm1}^{nl} - \frac{\mu(\lambda\theta_{gm} + \alpha_2\varepsilon_{gm} + (\lambda - \mu) + (\alpha_2 - \beta_2))}{D_3} x_{nl}^{e3} \end{aligned} \quad \textbf{(72)}$$

$$x_{nl}^{e3} = \frac{Y + \sqrt{Y^2 - 4XZ}}{2X} \quad \textbf{(73)}$$

with $X = \mu\theta_{nl} + \mu + p\varepsilon_{nl} + p - \mu\left(\frac{\mu(\lambda\theta_{gm} + \alpha_2\varepsilon_{gm} + \mu\theta_t + \beta_2\varepsilon_t + (\lambda - \mu) + (\alpha_2 - \beta_2))}{D_3}\right)$,

$$\begin{aligned} Y = P_s - \mu &\left(\begin{aligned} &\frac{(\lambda\theta_{gm} + \alpha_2\varepsilon_{gm} + (\lambda - \mu) + (\alpha_2 - \beta_2))}{D_3} P_s - \frac{(\lambda\theta_{gm} + \alpha_2\varepsilon_{gm} + (\lambda - \mu) + (\alpha_2 - \beta_2))}{D_3} w_{t2}^{l} \\ &+ \frac{e(\mu\theta_t + \beta_2\varepsilon_t)(\lambda - \mu)}{D_3} w_{gm1}^{nl} - \frac{(\mu\theta_t + \beta_2\varepsilon_t)e(\lambda - \mu)}{D_3} w_{t1}^{nl} - \frac{(\mu\theta_t + \beta_2\varepsilon_t)}{D_3} w_{gm2}^{l3} \end{aligned} \right) \\ &- nw_{t1}^{nl} - ow_{t3} - e\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)(\lambda - \mu)(\theta_{nl} - \varepsilon_{nl} + 1) - e\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)(\lambda - \mu)(\varepsilon_{nl} - 1)\frac{\mu(\mu\theta_t + \beta_2\varepsilon_t)}{D_3} \end{aligned}$$

$$Z = e(\lambda - \mu)(1 - \varepsilon_{nl})\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)\left(\begin{aligned} &\frac{e(\mu\theta_t + \beta_2\varepsilon_t + \mu + \beta_2)(\lambda - \mu)}{D_3} w_{gm1}^{nl} \\ &- \frac{(\mu\theta_t + \beta_2\varepsilon_t + \mu + \beta_2)e(\lambda - \mu)}{D_3} w_{t1}^{nl} \\ &- \frac{(\mu\theta_t + \beta_2\varepsilon_t + \mu + \beta_2)}{D_3} w_{gm2}^{l3} + \frac{(\mu + \beta_2)}{D_3} w_{t2}^{l} \end{aligned} \right)$$

and $D_3 = \left(\lambda\theta_{gm} + \alpha_2\varepsilon_{gm} + \lambda + \alpha_2\right)\left(\mu\theta_t + \beta_2\varepsilon_t + \mu + \beta_2\right) - \left(\mu + \beta_2\right)^2$

$$P_t^{S3*} = \beta_2 x_t^{e3} + \beta_2 x_{gm}^{e3} + w_{t2}^{l} \tag{74}$$

$$P_{nl}^{S3*} = m x_{nl}^{e3} + n w_{t1}^{nl} + o w_{t3} \tag{75}$$

$$P_{gm}^{S3*} = \alpha_2 x_{gm}^{e3} + \beta_2 x_t^{e3} + w_{gm2}^{l3} \tag{76}$$

Aggregate producer welfare in Countries 1 and 2 then equals:

$$\Pi_1^{nl3*} = \left(P_{nl}^{S3*} - w_{gm1}^{nl}\right)\frac{\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)}{2\left(\alpha_1 - \beta_1\right)} + \frac{\left(P_{nl}^{S3*} - w_{t1}^{nl}\right)^2}{2\beta_1} \tag{77}$$

$$\Pi_2^{l3*} = \left(P_{gm}^{S3*} - w_{gm1}^{l3}\right)\frac{\left(P_{gm}^{S3*} - w_{gm2}^{l3}\right) - \left(P_t^{S3*} - w_{t2}^{l}\right)}{2\left(\alpha_2 - \beta_2\right)} + \frac{\left(P_t^{S3*} - w_{t2}^{l}\right)^2}{2\beta_2} \tag{78}$$

VI. DETERMINANTS OF THE NASH EQUILIBRIUM IN LABELING STRATEGIES

This section focuses on establishing the conditions under which the different labeling scenarios examined previously can constitute a Nash equilibrium in labeling strategies. After having determined the aggregate producer welfare in each country under the different labeling scenarios, we can formulate the payoff matrix for Countries 1 and 2, as:

Table 2: Payoff Matrix

		Country 2	
		Labeling	**No-Labeling**
Country 1	**Labeling**	**Scenario 1** $\left(P_{gm}^{S1*} - w_{gm1}^{l1}\right)\frac{\left(P_{gm}^{S1*} - w_{gm1}^{l1}\right) - \left(P_t^{S1*} - w_{t1}^{l}\right)}{2\left(\alpha_1 - \beta_1\right)} + \frac{\left(P_t^{S1*} - w_{t1}^{l}\right)^2}{2\beta_1}$; $\left(P_{gm}^{S1*} - w_{gm2}^{l1}\right)\frac{\left(P_{gm}^{S1*} - w_{gm2}^{l1}\right) - \left(P_t^{S1*} - w_{t2}^{l}\right)}{2\left(\alpha_2 - \beta_2\right)} + \frac{\left(P_t^{S1*} - w_{t2}^{l}\right)^2}{2\beta_2}$	**Scenario 4** $\left(P_{gm}^{S4*} - w_{gm1}^{l4}\right)\frac{\left(P_{gm}^{S4*} - w_{gm1}^{l4}\right) - \left(P_t^{S4*} - w_{t1}^{l}\right)}{2\left(\alpha_1 - \beta_1\right)} + \frac{\left(P_t^{S4*} - w_{t1}^{l}\right)^2}{2\beta_1}$; $\left(P_{nl}^{S4*} - w_{gm2}^{nl4}\right)\frac{\left(w_{t2}^{nl} - w_{gm2}^{nl}\right)}{2\left(\alpha_2 - \beta_2\right)} + \frac{\left(P_{nl}^{S4*} - w_{t2}^{nl}\right)^2}{2\beta_2}$
	No-Labeling	**Scenario 3** $\left(P_{nl}^{S3*} - w_{gm1}^{nl}\right)\frac{\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)}{2\left(\alpha_1 - \beta_1\right)} + \frac{\left(P_{nl}^{S3*} - w_{t1}^{nl}\right)^2}{2\beta_1}$; $\left(P_{gm}^{S3*} - w_{gm2}^{l3}\right)\frac{\left(P_{gm}^{S3*} - w_{gm2}^{l3}\right) - \left(P_t^{S3*} - w_{t2}^{l}\right)}{2\left(\alpha_2 - \beta_2\right)} + \frac{\left(P_t^{S3*} - w_{t2}^{l}\right)^2}{2\beta_2}$	**Scenario 2** $\left(P_{nl}^{S2*} - w_{gm1}^{nl}\right)\frac{\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)}{2\left(\alpha_1 - \beta_1\right)} + \frac{\left(P_{nl}^{S2*} - w_{t1}^{nl}\right)^2}{2\beta_1}$; $\left(P_{nl}^{S2*} - w_{gm2}^{nl}\right)\frac{\left(w_{t2}^{nl} - w_{gm2}^{nl}\right)}{2\left(\alpha_2 - \beta_2\right)} + \frac{\left(P_{nl}^{S2*} - w_{t2}^{nl}\right)^2}{2\beta_2}$

Conditions for Scenario 1 being a Nash equilibrium

For Scenario 1 to be a Nash equilibrium, no player must have an incentive to deviate from the labeling strategy when the other country has chosen to label its products. For labeling to be a country's best response to the other country's decision to label its products, the following inequalities have to hold:

$$\Pi_1^{l1} > \Pi_1^{nl3} \Leftrightarrow$$

$$\left(P_{gm}^{S1*} - w_{gm1}^{l1}\right)\frac{\left(P_{gm}^{S1*} - w_{gm1}^{l1}\right) - \left(P_t^{S1*} - w_{t1}^{l}\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_t^{S1*} - w_{t1}^{l}\right)^2}{2\beta_1} > \left(P_{nl}^{S3*} - w_{gm1}^{nl}\right)\frac{\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_{nl}^{S3*} - w_{t1}^{nl}\right)^2}{2\beta_1}$$

$$\Pi_2^{l1} > \Pi_2^{nl4} \Leftrightarrow$$

$$\left(P_{gm}^{S1*} - w_{gm2}^{l1}\right)\frac{\left(P_{gm}^{S1*} - w_{gm2}^{l1}\right) - \left(P_t^{S1*} - w_{t2}^{l}\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_t^{S1*} - w_{t2}^{l}\right)^2}{2\beta_2} > \left(P_{nl}^{S4*} - w_{gm2}^{nl}\right)\frac{\left(w_{t2}^{nl} - w_{gm2}^{nl}\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_{nl}^{S4*} - w_{t2}^{nl}\right)^2}{2\beta_2}$$

Figure 13 graphs aggregate producer welfare in Country 1 under Scenarios 1 and 3. It follows that

$\Pi_1^{l1} > \Pi_1^{nl3}$ as long as the following inequalities hold:

$$P_{gm}^{S1*} - w_{gm1}^{l1} > P_{nl}^{S3*} - w_{gm1}^{nl} \Leftrightarrow \Delta_1 = P_{gm}^{S1*} - w_{gm1}^{l1} - \left(P_{nl}^{S3*} - w_{gm1}^{nl}\right) > 0 \quad \textbf{(79)}$$

$$P_t^{S1*} - w_{t1}^{l} > P_{nl}^{S3*} - w_{t1}^{nl} \Leftrightarrow \Delta_2 = P_t^{S1*} - w_{t1}^{l} - \left(P_{nl}^{S3*} - w_{t1}^{nl}\right) > 0 \quad \textbf{(80)}$$

Similarly, $\Pi_2^{l1} > \Pi_2^{nl4}$ as long as the following inequalities are satisfied (see Figure 14):

$$P_{gm}^{S1*} - w_{gm2}^{l1} > P_{nl}^{S4*} - w_{gm2}^{nl} \Leftrightarrow \Delta_3 = P_{gm}^{S1*} - w_{gm2}^{l1} - \left(P_{nl}^{S4*} - w_{gm2}^{nl}\right) > 0 \quad \textbf{(81)}$$

$$P_t^{S1*} - w_{t2}^{l} > P_{nl}^{S4*} - w_{t2}^{nl} \Leftrightarrow \Delta_4 = P_t^{S1*} - w_{t2}^{l} - \left(P_{nl}^{S4*} - w_{t2}^{nl}\right) > 0 \quad \textbf{(82)}$$

Conditions for Scenario 2 being a Nash equilibrium

For Scenario 2 to be a Nash equilibrium, no country should have incentive to adopt a labeling regime when the other country has chosen not to label its products. For no labeling to be a country's best response to the other country's decision to not label its products, the following inequalities have to hold:

$$\Pi_1^{nl2} > \Pi_1^{l4} \Leftrightarrow$$

$$\left(P_{nl}^{S2*} - w_{gm1}^{nl}\right)\frac{\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_{nl}^{S2*} - w_{t1}^{nl}\right)^2}{2\beta_1} > \left(P_{gm}^{S4*} - w_{gm1}^{l4}\right)\frac{\left(P_{gm}^{S4*} - w_{gm1}^{l4}\right) - \left(P_t^{S4*} - w_{t1}^{l}\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_t^{S4*} - w_{t1}^{l}\right)^2}{2\beta_1}$$

$$\Pi_2^{nl2} > \Pi_2^{l3} \Leftrightarrow$$

$$\left(P_{nl}^{S2*} - w_{gm2}^{nl}\right)\frac{\left(w_{t2}^{nl} - w_{gm2}^{nl}\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_{nl}^{S2*} - w_{t2}^{nl}\right)^2}{2\beta_2} > \left(P_{gm}^{S3*} - w_{gm2}^{l3}\right)\frac{\left(P_{gm}^{S3*} - w_{gm2}^{l3}\right) - \left(P_t^{S3*} - w_{t2}^{l}\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_t^{S3*} - w_{t2}^{l}\right)^2}{2\beta_2}$$

These inequalities are satisfied when:

$$\Delta_5 = P_{nl}^{S2*} - w_{gm1}^{nl} - \left(P_{gm}^{S4*} - w_{gm1}^{l4}\right) > 0 \quad \textbf{(83)}$$

$$\Delta_6 = P_{nl}^{S2*} - w_{t1}^{nl} - \left(P_t^{S4*} - w_{t1}^{l}\right) > 0 \quad \textbf{(84)}$$

$$\Delta_7 = P_{nl}^{S2*} - w_{gm2}^{nl} - \left(P_{gm}^{S3*} - w_{gm2}^{l3}\right) > 0 \quad \textbf{(85)}$$

$$\Delta_8 = P_{nl}^{S2*} - w_{t2}^{nl} - \left(P_t^{S3*} - w_{t2}^{l3}\right) > 0 \quad \textbf{(86)}$$

Conditions for Scenario 3 being a Nash equilibrium

Scenario 3 will be a Nash equilibrium when the following inequalities hold:

$$\Pi_1^{nl3} > \Pi_1^{l1} \Leftrightarrow$$

$$\left(P_{nl}^{S3*} - w_{gm1}^{nl}\right)\frac{\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_{nl}^{S3*} - w_{t1}^{nl}\right)^2}{2\beta_1} > \left(P_{gm}^{S1*} - w_{gm1}^{l1}\right)\frac{\left(P_{gm}^{S1*} - w_{gm1}^{l1}\right) - \left(P_t^{S1*} - w_{t1}^{l}\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_t^{S1*} - w_{t1}^{l}\right)^2}{2\beta_1}$$

$$\Pi_2^{l3} > \Pi_2^{nl2} \Leftrightarrow$$

$$\left(P_{gm}^{S3*} - w_{gm2}^{l3}\right)\frac{\left(P_{gm}^{S3*} - w_{gm2}^{l3}\right) - \left(P_t^{S3*} - w_{t2}^{l}\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_t^{S3*} - w_{t2}^{l}\right)^2}{2\beta_2} > \left(P_{nl}^{S2*} - w_{gm2}^{nl}\right)\frac{\left(w_{t2}^{nl} - w_{gm2}^{nl}\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_{nl}^{S2*} - w_{t2}^{nl}\right)^2}{2\beta_2}$$

or, when:

$$P_{nl}^{S3*} - w_{gm1}^{nl} - \left(P_{gm}^{S1*} - w_{gm1}^{l1}\right) > 0 \Leftrightarrow \Delta_1 < 0 \quad \textbf{(87)}$$

$$P_{nl}^{S3*} - w_{t1}^{nl} - \left(P_t^{S1*} - w_{t1}^{l}\right) > 0 \Leftrightarrow \Delta_2 < 0 \quad \textbf{(88)}$$

$$P_{gm}^{S3*} - w_{gm2}^{l3} - \left(P_{nl}^{S2*} - w_{gm2}^{nl}\right) > 0 \Leftrightarrow \Delta_7 < 0 \quad \textbf{(89)}$$

$$P_t^{S3*} - w_{t2}^{l} - \left(P_{nl}^{S2*} - w_{t2}^{nl}\right) > 0 \Leftrightarrow \Delta_8 < 0 \quad \textbf{(90)}$$

Conditions for Scenario 4 being a Nash equilibrium

Finally, the conditions that result in Scenario 4 being a Nash equilibrium are:

$$\Pi_1^{l4} > \Pi_1^{nl2} \Leftrightarrow$$

$$\left(P_{gm}^{S4*} - w_{gm1}^{l4}\right)\frac{\left(P_{gm}^{S4*} - w_{gm1}^{l4}\right) - \left(P_t^{S4*} - w_{t1}^{l}\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_t^{S4*} - w_{t1}^{l}\right)^2}{2\beta_1} > \left(P_{nl}^{S2*} - w_{gm1}^{nl}\right)\frac{\left(w_{t1}^{nl} - w_{gm1}^{nl}\right)}{2(\alpha_1 - \beta_1)} + \frac{\left(P_{nl}^{S2*} - w_{t1}^{nl}\right)^2}{2\beta_1}$$

$$\Pi_2^{nl4} > \Pi_2^{l1} \Leftrightarrow$$

$$\left(P_{nl}^{S4*} - w_{gm2}^{nl}\right)\frac{\left(w_{t2}^{l} - w_{gm2}^{nl}\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_{nl}^{S4*} - w_{t2}^{nl}\right)^2}{2\beta_2} > \left(P_{gm}^{S1*} - w_{gm2}^{l1}\right)\frac{\left(P_{gm}^{S1*} - w_{gm2}^{l1}\right) - \left(P_t^{S1*} - w_{t2}^{l}\right)}{2(\alpha_2 - \beta_2)} + \frac{\left(P_t^{S1*} - w_{t2}^{l}\right)^2}{2\beta_2}$$

and can be rewritten as:

$$P_t^{S4*} - w_{gm1}^{l4} - \left(P_{nl}^{S2*} - w_{gm1}^{nl}\right) > 0 \Leftrightarrow \Delta_5 < 0 \qquad \textbf{(91)}$$

$$P_t^{S4*} - w_{t1}^{l} - \left(P_{nl}^{S2*} - w_{t1}^{nl}\right) > 0 \Leftrightarrow \Delta_6 < 0 \qquad \textbf{(92)}$$

$$P_{nl}^{S4*} - w_{gm2}^{nl} - \left(P_{gm}^{S1*} - w_{gm2}^{l1}\right) \Leftrightarrow \Delta_3 < 0 \qquad \textbf{(93)}$$

$$P_{nl}^{S4*} - w_{t2}^{nl} - \left(P_{gm}^{S1*} - w_{t2}^{l1}\right) \Leftrightarrow \Delta_4 < 0 \qquad \textbf{(94)}$$

Determinants of the Nash Equilibrium in Labeling Strategies: Discussion

The conditions presented above indicate that the Nash equilibrium configuration of labeling regimes in the countries that have adopted the GM technology depends on the relative farm prices of the GM, the conventional, and the non-labeled products under the different labeling scenarios, as well as on the cost of production under the GM and conventional technologies. The relative farm prices and costs of production are affected, in turn, by (i) the distribution of consumer preferences and the level of consumer aversion to GM products; (ii) the size of the segregation and labeling costs in the two countries; (iii) the relative productive efficiency and the cost effectiveness of the GM technology in these countries; (iv) the structure of the trading sector and the market power of the life science companies; and (v) the strength of intellectual property rights in these countries.

While it is certainly the interaction of all these parameters that determines whether a profile of labeling strategies will constitute a Nash equilibrium or not, the rest of this section will focus on separating the effect of these parameters on the potential of the different labeling scenarios to constitute a Nash equilibrium in labeling strategies. In so doing, we are able to gain insights on the general environment in which each labeling configuration is likely to emerge as a Nash equilibrium.

Segregation and labeling costs

Consistent with *a priori* expectations, expressions Δ_1 - Δ_4 in equations (79)-(82) fall with an increase in the segregation costs associated with a labeling regime indicating that the lower are these costs, the more likely is that countries will find it optimal to label their products. Thus, Scenario 1 is more likely to be a Nash equilibrium when the segregation and labeling costs are relatively low in both countries.

When these costs are relatively high in both countries, the appeal of a non-labeling strategy increases and so does the likelihood that both countries will find it optimal to not label their products. Formally, the greater are the segregation and labeling costs, the greater are $\Delta_5, \Delta_6, \Delta_7$ and Δ_8 in equations (83)-(86), and the more likely it is that Scenario 2 will emerge as the Nash equilibrium in labeling regimes.

Finally, a discrepancy in the segregation and labeling costs between the two countries might result in different regulatory responses to products of biotechnology. The greater is the difference in segregation and labeling costs between the two countries, the more likely it is that these countries will chose different labeling regimes (with the low cost country labeling its products and the high cost country opting for a no labeling regime).

Consumer aversion to GM products

It can be shown that expressions Δ_1 - Δ_4 rise with an increase in the level of consumer aversion to GM products, indicating that the greater is the consumer opposition to GM products, the more likely it is that countries will find it optimal to label their products. Note that in the presence of non-labeled products in the market (as is the case in Scenarios 2, 3 and 4), an increase in consumer aversion reduces the demand for these products and causes producer welfare to fall. When GM products are segregated and labeled as such, the rise in consumer aversion reduces the demand for GM products while increasing the demand for their conventional counterparts. When consumer aversion is relatively high, all consumers will prefer the conventional product, and the GM (and non-labeled) products are driven out of the market. The producer welfare gains from the increased demand for conventional products make the labeling regime appealing to countries when the consumer aversion is high.

On the other hand, a low level of consumer aversion to GM products reduces the appeal of labels and makes a non-labeling strategy more attractive. The lower is the consumer aversion to GM products, the greater are $\Delta_5, \Delta_6, \Delta_7$ and Δ_8, and the greater is the likelihood that countries will find it optimal to not label their products.

Market power of the life science sector and strength of IPRs

Both the market power by the life science sector and the strength of its IPRs affect the base cost of producing the GM crop, w_{gm}. The greater is the market power of the life science sector and/or the stronger is the enforcement of its IPRs, the more expensive is the GM technology (Giannakas, 2002). *Ceteris paribus*, it can then be shown that Δ_1, Δ_2, Δ_3, and Δ_4 fall with an increase in w_{gm} - the lower is w_{gm}, the more likely it is for countries to find it optimal to label their produce. The reasoning is as follows. A reduction in w_{gm} (due to low market power of the life science sector and/or lax enforcement of its IPRs) increases the production share of the GM crop. The increased production share of the GM crop increases the utility discount factor associated with the consumption of the non-labeled product (see equation (26)), and reduces the consumer demand for the non-labeled product under the alternative Scenarios 3 and 4. Thus, the lower is the market power of the life science sector and/or the weaker is the enforcement of its IPRs, the less appealing is the no labeling regime, and the more likely it is that both countries will find it optimal to label their products.

Conversely, the greater is the market power of the life science sector and/or the stronger is the enforcement of IPRs, the less appealing is labeling, and the greater is the likelihood that countries will find it optimal to not label their products. Formally, the greater is w_{gm}, the greater are $\Delta_5, \Delta_6, \Delta_7$ and Δ_8, and the greater is the likelihood that Scenario 2 will be a Nash equilibrium.

It follows that differences in the market power of the life science sector and/or differences in the strength of IPRs between the two countries can rationalize the establishment of different labeling regimes. In particular, a high degree of market power and/or strong IPRs in Country 1(2) combined with low market power and/or lax enforcement of IPRs in Country 2(1) can result in Scenario 3(4) being a Nash equilibrium in labeling strategies.

Cost effectiveness of the new technology

Similar to market power of the life science sector and the strength of IPRs, the cost effectiveness of the new technology affects the cost of producing the GM crop. The more cost effective is the new technology, the greater are Δ_1, Δ_2, Δ_3, and Δ_4 and the more likely it is that Scenario 1 will emerge as a Nash equilibrium in labeling strategies. The reasoning is as follows. The greater is the cost effectiveness of the GM technology, the greater is the production share of GM products, the lower is the consumer demand for non-labeled products, and the lower is the producer welfare under a no-labeling regime. Thus, the more effective is the new technology in reducing the costs of production, the more likely it is that countries that have adopted the GM technology will find it optimal to label their products.

It follows that a low cost effectiveness of the GM technology in both countries, enhances the desirability of the no labeling regime and makes the emergence of Scenario 2 as a Nash equilibrium more likely. On the other hand, an asymmetric effect of the GM technology on the cost of production might result in different labeling strategies in the two countries. In such a case, the country for which the new technology is highly cost effective will label its products while the country enjoying relatively small gains from the GM technology will opt for a no labeling regime. Thus, a high cost effectiveness of the GM technology in Country 1(2) combined with a low cost effectiveness in Country 2(1) can result in Scenario 4(3) being a Nash equilibrium in labeling strategies.

Table 3 summarizes the conditions facilitating the different Nash equilibria in labeling strategies considered in this study.

Table 3: Conditions Facilitating the Different Nash Equilibria

		Country 2: Labeling	Country 2: No-Labeling
Country 1	Labeling	**Scenario 1:** - Low segregation costs - High consumer aversion to GM products - High cost effectiveness of GM technology - Weak IPRs - Low degree of market power by the life science sector	**Scenario 4:** - Low segregation costs in C.1 & High segregation costs in C.2 - High cost effectiveness of GM technology in C.1 & Low cost effectiveness in C.2 - Weak IPRs in C.1 & Strong IPRs in C.2 - Low degree of market power in C.1 & High market power in Country 2
	No-Labeling	**Scenario 3:** - High segregation costs in C.1 & Low segregation costs in C.2 - Low cost effectiveness of GM technology in C.1 & High cost effectiveness in C.2 - Strong IPRs in C.1 & Weak IPRs in C.2 - High degree of market power in C.1 & Low market power in Country 2	**Scenario 2:** - High segregation costs - Low consumer aversion to GM products - Low cost effectiveness of GM technology - Strong IPRs - High degree of market power by the life science sector

Before concluding this section it should be emphasized that the conditions presented in Table 3 represent depictions of the general environment in which different configurations of labeling strategies are likely to constitute a Nash equilibrium. Since it is the interaction of all these factors that determine whether a profile of labeling strategies will constitute a Nash equilibrium or not, the conditions presented in Table 3 should be viewed as sufficient, and not as necessary, conditions for the different labeling scenarios to constitute a Nash equilibrium.

It is possible, for instance, that a low cost effectiveness of the GM technology will be present in an environment in which both countries label their products. This could occur when the impact of a high consumer aversion and/or low segregation costs and/or low market power of the life science sector and/or lax IPR enforcement outweigh the impact of low cost effectiveness making labeling the optimal regulatory response in both regions.

VII. CONCLUSIONS

This paper develops a stylized four-region model of heterogeneous producers and consumers to analyze the strategic interdependence between a small number of large producing countries that have adopted the GM technology and seek to determine their regulatory response to products of biotechnology (i.e., whether to label their GM and conventional produce or not). The framework of analysis developed in this paper builds on the published work by Giannakas and Fulton (2002) and Fulton and Giannakas (2004) that examine market and welfare effects of the GM technology, by placing the analysis of labeling decisions in a multi-country context. To our knowledge, the effect of strategic interdependence on countries' labeling decisions has not been considered previously.

The strategic interaction between the GM producing countries is modeled in this paper as a strategic game where the countries determine their labeling regimes non-cooperatively (i.e., independently but aware that their labeling strategies affect each others payoffs). In this context, the paper examines the strategic effects of labeling decisions and identifies the determinants of the non-cooperative Nash equilibrium labeling regimes in these GM producing countries. In doing so, we are able to determine the environment in which each labeling configuration is likely to emerge as a Nash equilibrium i.e., the conditions under which the different configurations of labeling strategies can constitute a Nash equilibrium.

Analytical results show that the Nash equilibrium configuration of labeling regimes in countries that have adopted the GM technology depends on (i) the distribution of consumer preferences and the level of consumer aversion to GM products; (ii) the size of the segregation and labeling costs in the two countries; (iii) the relative productive efficiency and the cost effectiveness of the GM technology in these countries; (iv) the structure of the trading sector and the market power of the life science companies; and (v) the strength of intellectual property rights in these countries.

Specifically, the greater (lower) is the consumer aversion to GM products and/or the smaller (greater) is the size of the segregation costs associated with a labeling regime in these countries and/or the greater (smaller) is the cost effectiveness of the new technology and/or the lower (greater) is the market power of the life science sector and/or the weaker (stronger) are the intellectual property rights in these countries, the more likely it is that GM producing countries will find it optimal to label (not label) their products.

While a similarity in these market and agronomic characteristics leads to uniform labeling standards in the GM producing regions, a divergence in the segregation costs, productive efficiency, cost effectiveness of the GM technology, market power and/or enforcement of IPRs between the different countries can lead to different regulatory responses to products of biotechnology. Different market and/or agronomic characteristics can, therefore, provide an explanation for the different approaches to labeling adopted in different countries around the world.

In addition to providing insights on the factors affecting countries' decisions on the regulation and labeling of products of biotechnology, the stylized framework of analysis developed in this paper can provide the basis for the economic analysis of issues like the recent introduction of mandatory labeling by the EU and Brazil's formal entry into the market(s) for GM crops.

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Figure 1: Net Returns under Mandatory Labeling

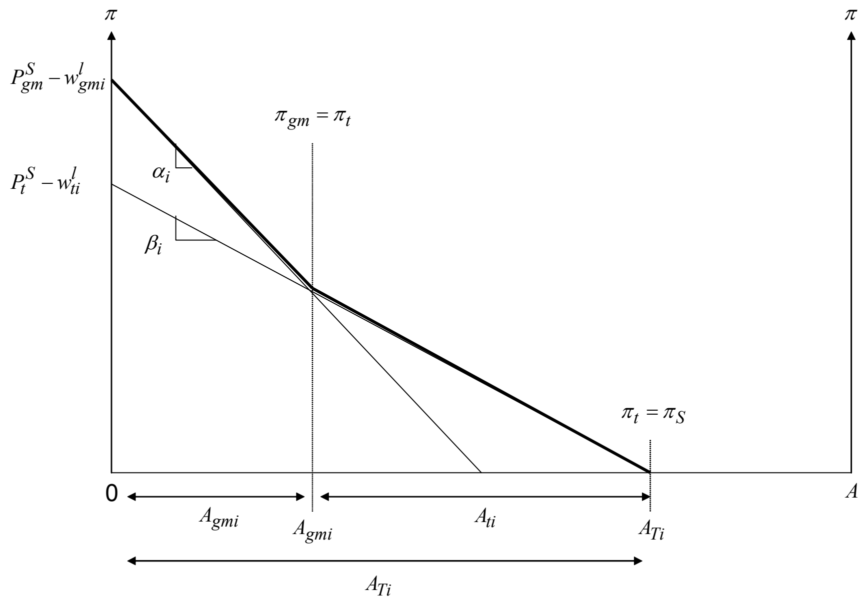

Figure 2: Net Returns under No Labeling

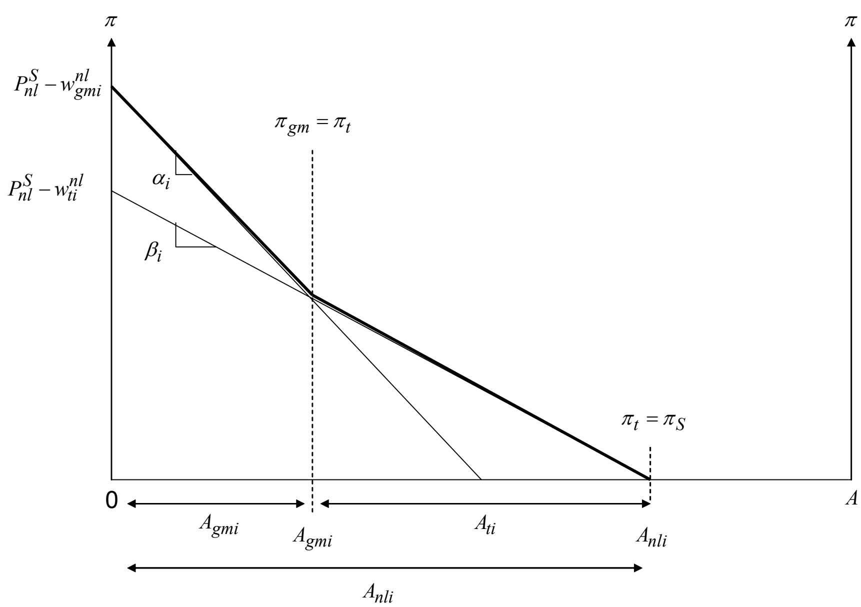

Figure 3: Net Returns in the Rest of the World

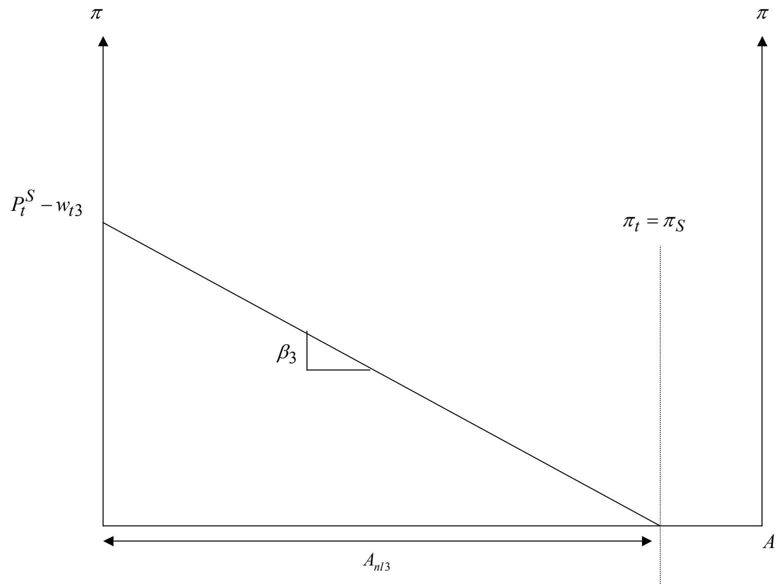

Figure 4: Determination of Global Supplies under Scenario 1

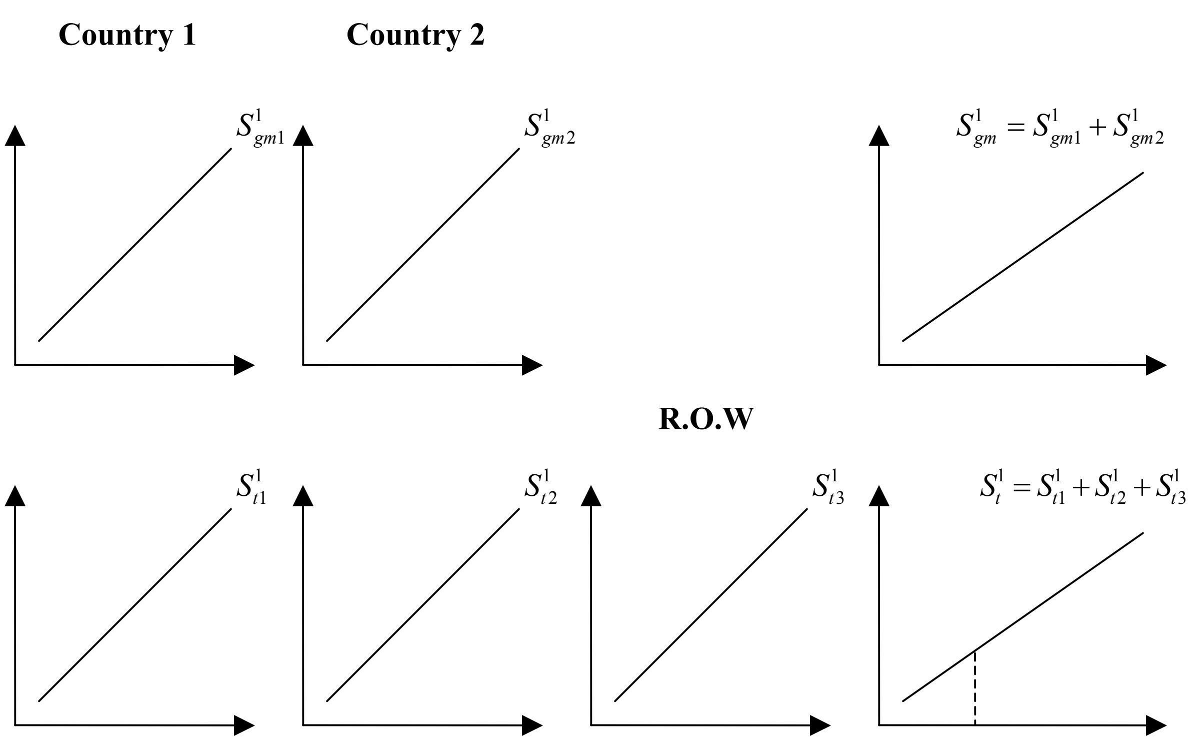

Figure 5: Determination of the Global Supply under Scenario 2

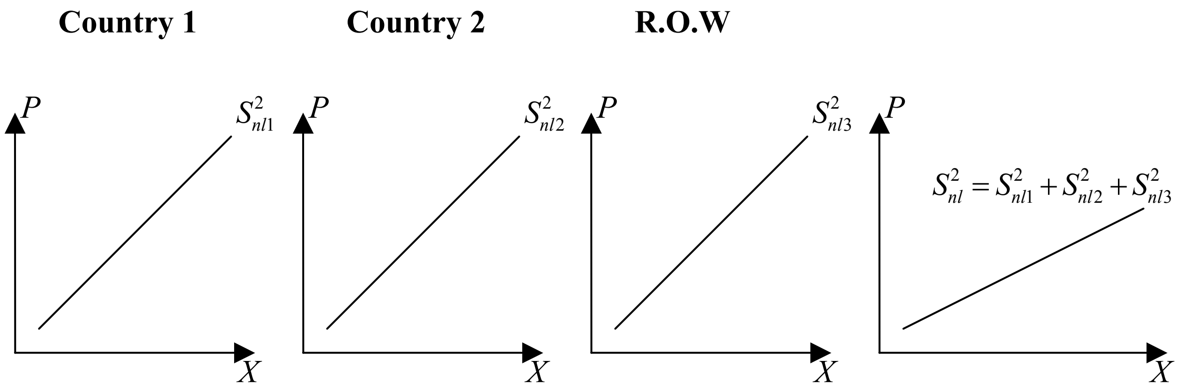

Figure 6: Determination of Global Supplies under Scenario 4

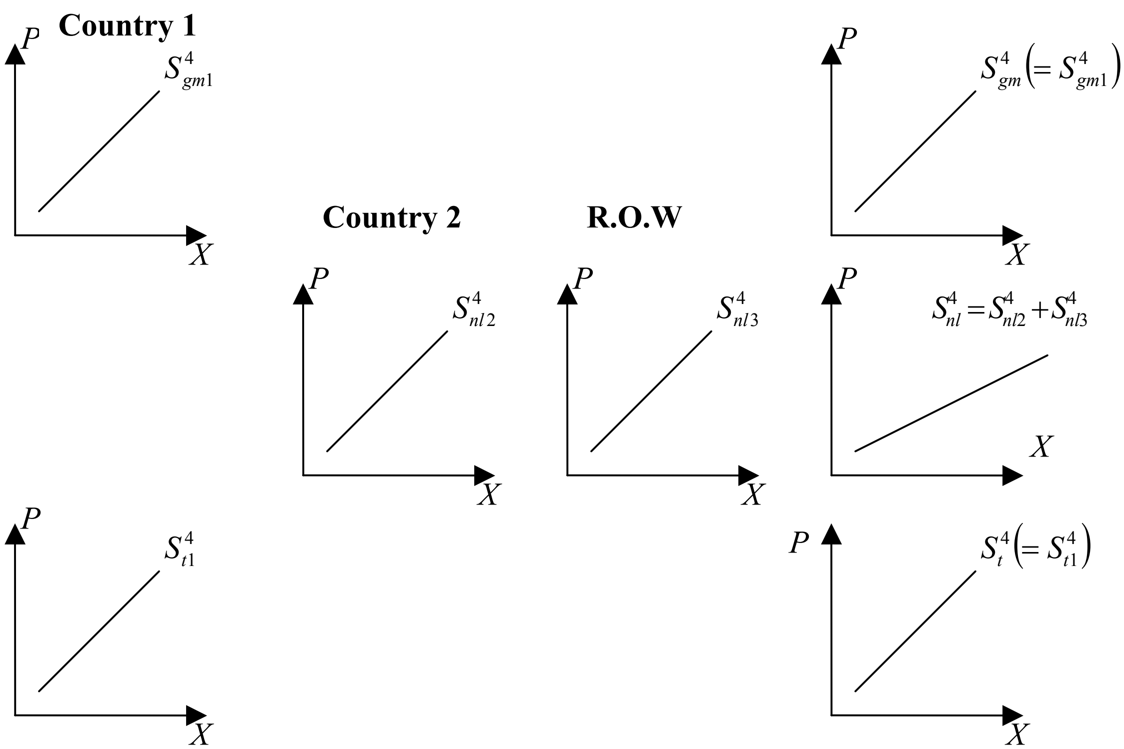

Figure 7: Consumption Decisions under Scenario 1

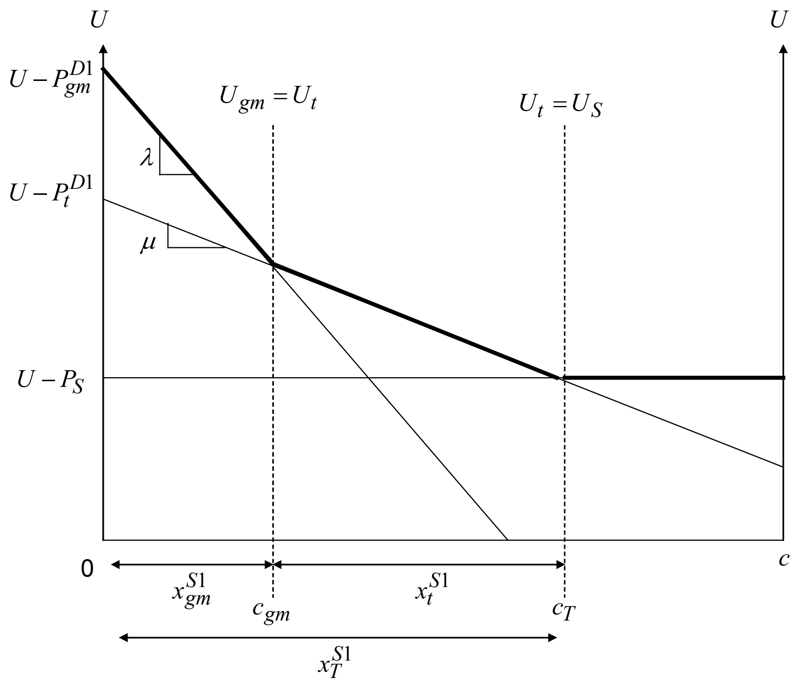

Figure 8: Consumption Decisions under Scenario 2

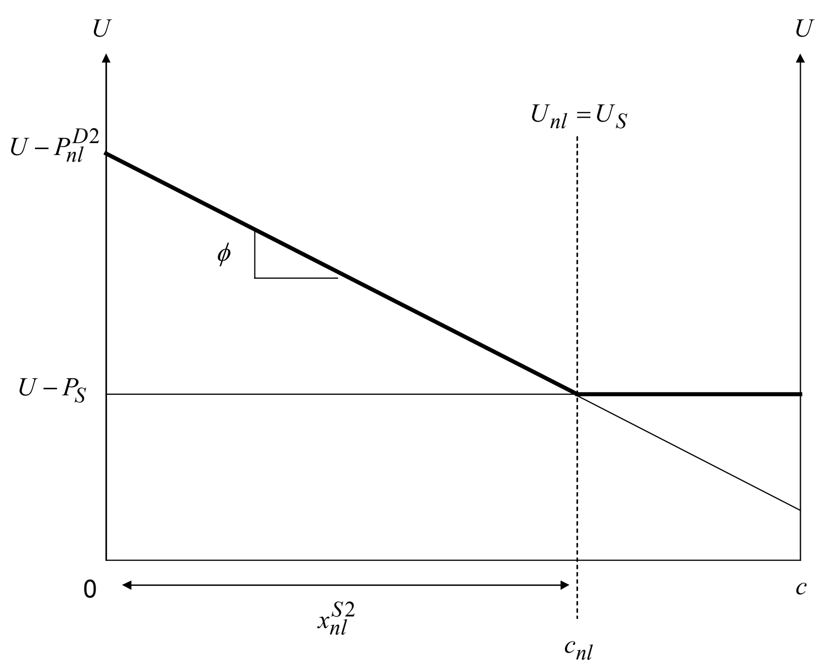

Figure 9: Consumption Decisions under Scenarios 3 and 4

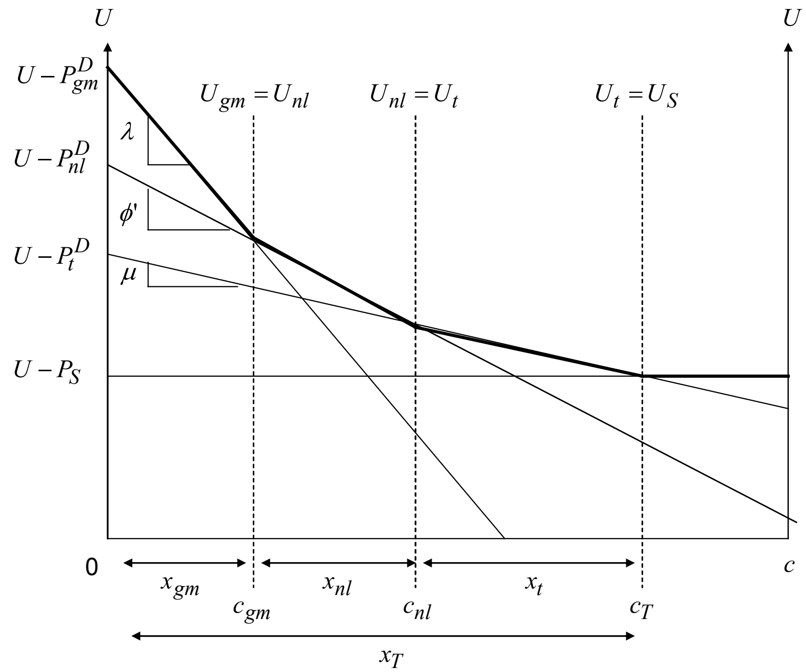

Figure 10: Market Outcomes under Scenario 1

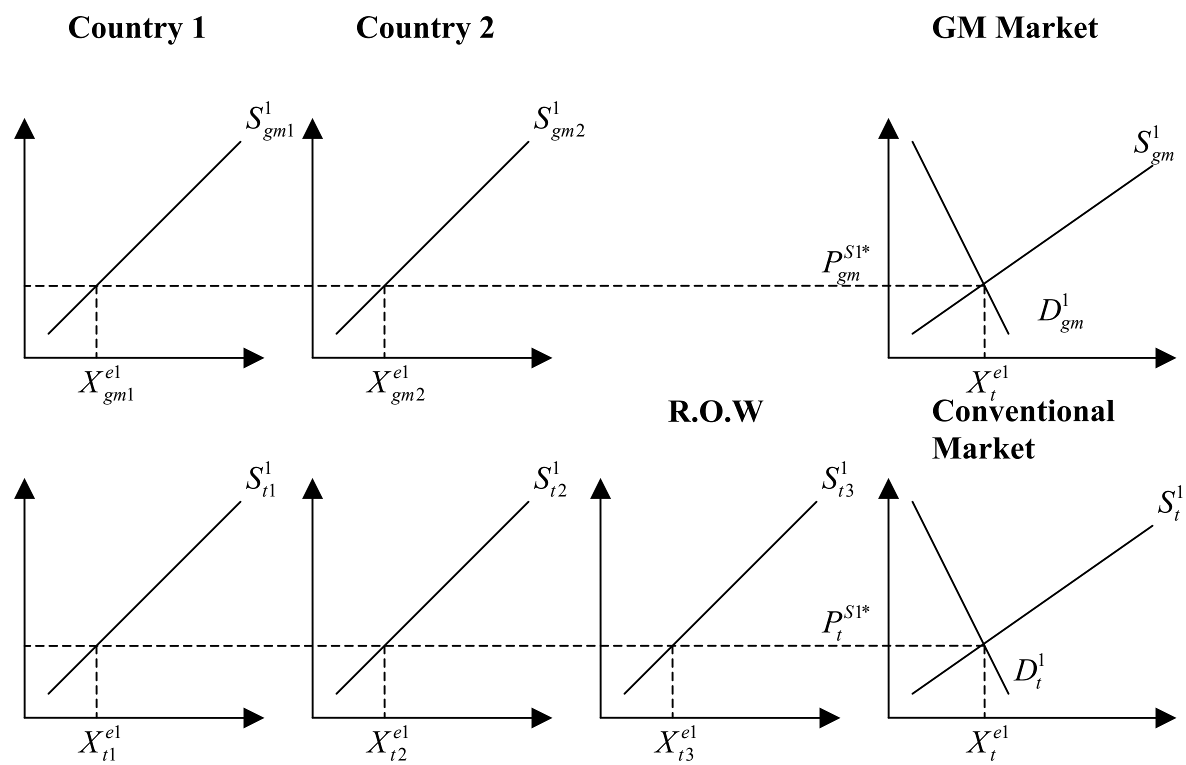

Figure 11: Market Outcomes under Scenario 2

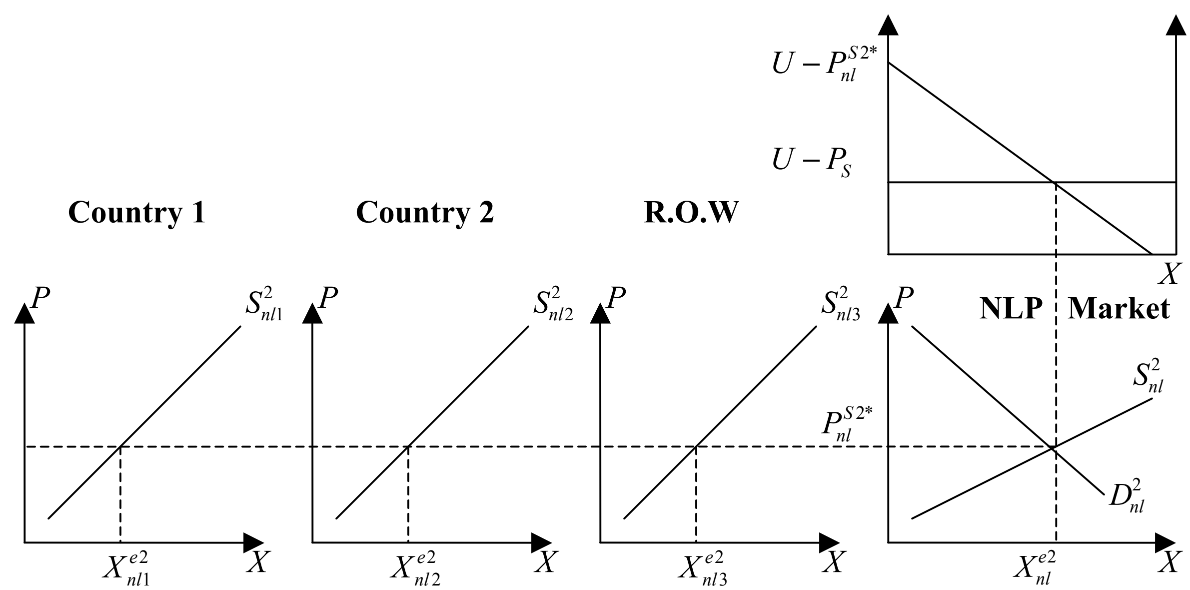

Figure 12: Market Outcomes under Scenario 4

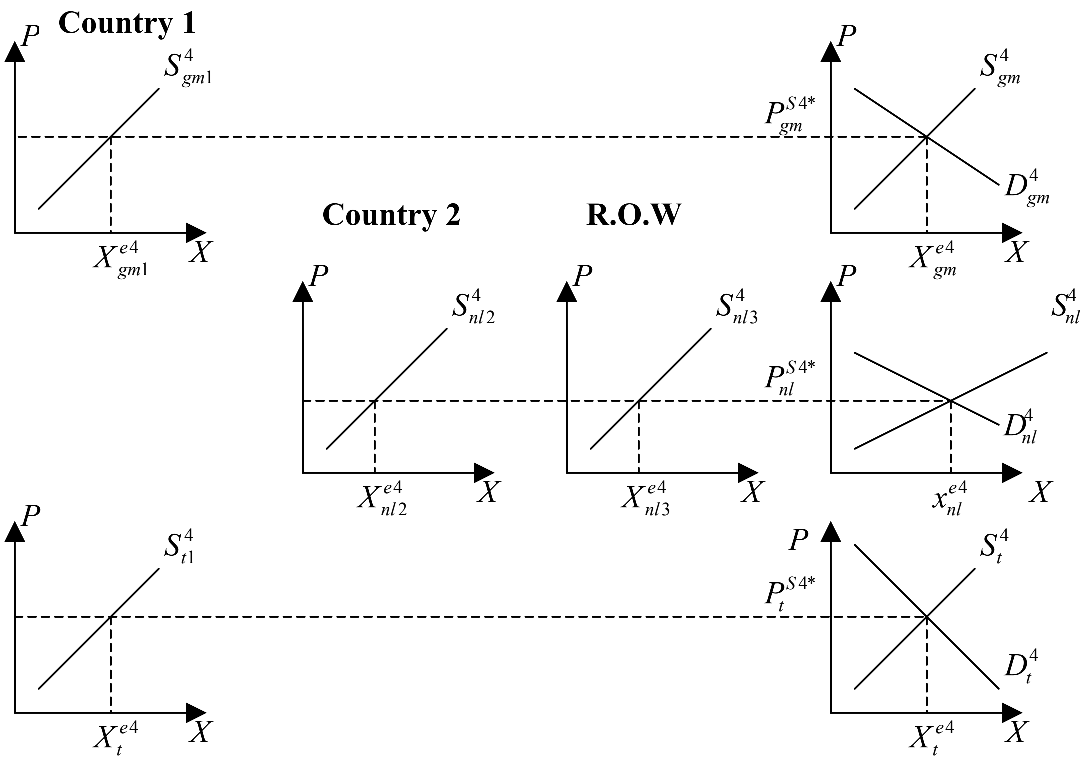

Figure 13: Aggregate Producer Welfare in Country 1 under Scenarios 1 and 3

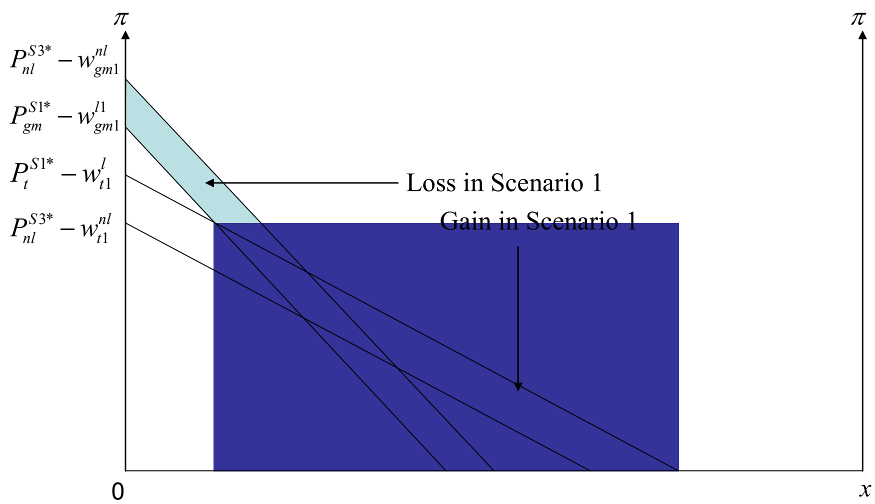

Figure 14: Aggregate Producer Welfare Gains in Country 2 under Scenario 1 (relative to Scenario 4)