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# Direct-selling farming and urban externalities: what impact on product quality and market size?

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## Abstract

In this paper, we study how proximity to cities affects the decisions of farmers to enter the direct-sales market in the presence of spatial heterogeneity in agricultural yields. We develop a theoretical model which takes account of the externality of urban pollution and market access costs on direct-selling profits. We find that regions hosting an intermediate-size city are more likely to supply a wider range of direct-selling varieties. Additionally, we highlight that spatial heterogeneity in productivity creates distortions in the competition among farmers, and can have concomitant undesired effects on both the quality and range of available varieties.

**Keywords:** Direct-selling farming, spatial heterogeneity, urban pollution, city size.

**JEL Classification:** D43; Q13; Q53; R32

## 1 Introduction

The last two decades in many developed countries have seen a revival of short food supply chains (SFSCs) and local food systems—*i.e. systems where production, processing, trade and consumption occur within a particular, narrowly defined geographical area, and with a limited number of intermediaries*. As Martinez [2010] points out in the context of the US market, SFSCs account for a growing share of total agricultural sales, an indication that distribution networks are changing continuously to better meet the needs of customers.

To some extent, the recent global trend towards SFSCs can be explained by the wish of consumers to re-establish long lasting trusting relationships with farmers. In affluent cities in particular, consumers' expectations have grown regarding the quality, origin and safety of the food they purchase [Deutsch et al., 2013]. Food supply crises such as BSE and the Belgian dioxin incident have caused widespread anxiety among citizens [Miles and Frewer, 2001]. In addition to concerns over safer food,

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