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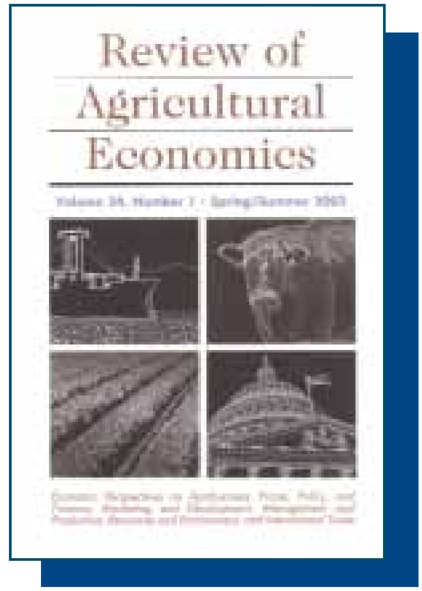
Regulatory Events and Biotech Firm Share Prices



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by Erik Dohlman, Thomas Hall, and Agapi Somwaru

For more information, contact:

Erik Dohlman at Edohlman@ers.usda.gov or

Agapi Somwaru at agapi@ers.usda.gov

http://www.ers.usda.gov

Research and development (R&D) of new seed varieties, particularly those developed through biotechnology (biotech), has evolved from a public enterprise to a largely commercial undertaking. Incentives to engage in R&D of biotech crops therefore hinge more directly upon the commercial success of these products, which in turn requires acceptance by farmers and consumers. Although U.S. farmers initially adopted biotech varieties very rapidly, consumers have been slower to embrace them. In recent years, consumers in many countries have exhibited increased interest in food labeling and other regulations, pointing to a possible shift in consumer preferences toward nonbiotech foods.

Coinciding with increased media attention to biotech crops, the previously strong stock price performance of leading agricultural biotechnology firms reversed after 1998. Research using the "event study" method reveals that the reduced performance of biotech firm stocks can be linked to regulatory actions that banned, delayed, or otherwise limited the introduction of biotech crops to certain markets. Actions taken by downstream users—such as crop processors, food retailers, or consumer interest groups—that would affect the ability to market biotech crops appear to have had a less pronounced impact on stock prices. These developments may have diminished incentives to engage in new biotech crop R&D.