

Discussion of

**“Unfair Trade?
Monopsony Power in Agricultural Value Chains”**

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The paper in one slide

- **Question.** How much do exporters mark down farmer prices, and how much would farmers gain from pro-farmer policies?
- **Data.** Customs + VAT + firm registry, Ecuador 2008–2011: ~ 800 exporters, $\sim 50k$ farmers, 157 crops.
- **Three facts.** Markets concentrated; for every dollar earned by exporter, farmer share $< 25\%$; share decreasing in exporter size s_{ij} .
- **Model.** Nested CES farmer choice over (crop j , exporter i); Cournot competition; two key elasticities $\eta > \theta$.
- **Identification.** Indirect inference matching pass-through of shift-share intl-price shocks (level $\hat{\gamma}$, slope $\hat{\zeta}$).
- **Counterfactuals** Markdown ≈ 0.49
 - Perfect competition +64% farmer income
 - Fair Trade exporter w/ 15% share +10% farmer income.

All in all

- **Great new data** — matched farmer–exporter data across 157 crops; first of its kind in the literature.
- **Tight theory–data integration** — the model speaks directly to the identification
- **Careful execution** — clean identification, multiple internal and external validation exercises, polished exposition.
- **Real policy relevance** — Fair Trade and price-floor counterfactuals speak to active debates among policy-makers.

General comments

Comment 1: Exporter value added

The wedge “MRP – farm-gate” bundles markdown with real value-added activities.

(a) Other intermediaries.

- Paper assumes *farmer* → *exporter*.
- Hidden middlemen → their margin shows up as “markdown”.
- Competing products have larger supply chains?

(c) Real input costs.

- Mentioned fixed cost of machines
- Even marginal costs: wages controlled for; **imports / other inputs unclear**. → Check if a firm that uses less inputs (or less value of inputs) still charges high markdowns.
- Do markdowns differ across HS by processing intensity before exporting? Maybe check if markdown seem different for these cases.

(b) Quality upgrading.

- Bergquist et al.(2026): Exporters extract or add value.
“Downstream intermediaries primarily engage in value extraction—by exerting market power and charging large markdowns—or value addition—by contributing to quality upgrading themselves as goods move downstream”
- Coffee, cocoa, fish: real premia for sorting / drying / grading.

(d) Branding / destination.

- Big exporters → advanced economies → packaging / certification.
- **Test:** does the size → low farmer-share link survive controls for destination mix or product type?

The cross-section is consistent with several stories, not just market power.

(a) Destination heterogeneity in the shock.

- Shock is exporter-specific: $\Delta \log p_{ijt}^x = \sum_d \lambda_{ijd,t-1} \Delta \log p_{jdt}^x$.
- If "domestic" size correlates with destination mix, $\hat{\zeta}$ may reflect *pricing-to-market*, not monopsony.
- **Checks:** balance test of $s_{ij,t-1}$ on the shock; common-shock spec; foreground Table A.10 ($t \approx 1.5$ in the appendix today).

(Goldsmith-Pinkham, Sorkin and Swift, 2020; Berman, Martin and Mayer, 2012; Amiti, Itskhoki and Konings, 2014)

(b) Quantity discounts.

- No farmer-level quantity data.
- Paper compares two farmers: one with a big exporter, one with a smaller one.
- **Within-exporter test:** two farmers selling *more* vs. *less* to the *same* exporter.

(c) Transport / location.

- Big domestic-share exporters may reach *further* farmers.
- Lower farm-gate price could be distance, not market power.
- **Location data exist** in the registry → testable.

Market power is modeled only on the farmer side: exogenous prices of other inputs and output

(a) Foreign markups.

- “Ecuador small” $\neq$ “exporters small.”
- Top exporters have non-trivial world shares (bananas, shrimp).
- If they post markups abroad, Elasticities pick up **markup adjustment** too.
- Some check to show is not that relevant in this case?
- Can explore the price abroad? If exporters have markups abroad does this change the markdowns they charge farmers? For example, would they charge lower markdowns if they can have higher markups?

(b) Labor monopsony.

- Big exporters often the **dominant local employer**.
- Domestic input price p_j^m also moves with intl shocks.
- Indirect inference attributes the *whole* wedge to farmer-input markdown $\rightarrow$ **overstates** it.
- Wage-bill data could bound a labor markdown.

$\rightarrow$ Both biases push in the *same* direction: the unmodeled extra market power gets attributed to the farmer-side markdown.

The headline numbers (+64%, +10%) come out of the counterfactuals — based on some assumptions

(a) What makes Fair Trade “Fair Trade”?

- Consumer premium $p_{j,FT}^x > p_j^x$ funds higher farmgate prices (Hainmueller et al., 2015: WTP $\sim 10\%$).
- Main-text counterfactual is closest to pro-farmer entry / cooperative exporting; consumer-funded interpretation requires an *implied* premium.
- With markdown ≈ 0.49 , required premium is large *and increasing in monopsony power*.
- **Checks:** back out implied premium at each market share in Fig. 7a; endogenize FT demand (Podhorsky, 2015).

(b) Partial equilibrium: world price p_j^x held fixed.

- When markdowns disappear, Ecuadorian supply rises.
- For Ecuador-dominant products, p_j^x should fall, dampening the gain.
- Import-demand elasticity of 6.5 to adjust pass-through *into* estimation, but the same elasticity is not used to discipline world-price feedback in the *counterfactual*. **Suggestion.** Endogenize p_j^x in the counterfactual with the same 6.5 (and a sensitivity band $[4, 10]$). 64% effect might be lower.

(c) Counterfactuals use pooled $(\hat{\eta}, \hat{\theta})$.

- Author shows θ lower for high time-to-maturity, η lower for high-perishability.
- But the 64% / 10% are weighted averages with opaque composition.
- Re-run within crop cells $\rightarrow$ **Fair Trade gain bigger for coffee, smaller for fish.**

Minor Comments

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- **θ has no subindex.** Switching coffee $\rightarrow$ shrimp is treated like coffee $\rightarrow$ cocoa. Even a deeper nest by agroclimatic class would let cross-class substitution differ from within. Can check in the data how farmers move.
- **Single-crop, single-exporter farmer.** The discrete choice forces each farmer onto one (j, i) . Eliminates diversification — a first-order risk-management margin in cash-crop agriculture.
- **Asymmetric pass-through.** Author rules out insurance because pass-through declines with size only for *positive* shocks. But under the model markdowns adjust *symmetrically* — the asymmetry **also cuts against the standard markdown story**.
- **Information / search frictions.** Are farmers price-takers among posted prices, or do they search? Allen (2014); Bergquist–Dinerstein (2020) documents large information frictions. These are observationally similar to monopsony in cross-section; pass-through helps separate them but only under the model's other assumptions

Minor comments

- **Uniqueness of $\hat{\eta}, \hat{\theta}$.** Show the indirect-inference criterion surface — is the minimum unique?
- **Sensitivity table.** Move $\hat{\eta}, \hat{\theta}$, markdown, and $\Delta \log Y_{\text{farmer}}^{PC-MP}$ with
 - fatter-tailed z (Pareto / Fréchet);
 - import-demand elasticity in $\{4, 6.5, 10\}$.
- **Multi-product exporters.** 24% sell more than one HS6, assigned to top product (93% of exports). Fine on average, but ζ uses cross-exporter dispersion — a robustness dropping them would be reassuring.

Thank you!