Unfair Trade? Market Power in Agricultural Value Chains

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I show that exporter market power prevents farmers from benefiting from international trade. Using microdata from Ecuador, I link exporters to the farmers who supply them across the universe of exported cash crops. I document that farmers earn significantly less when they sell crops in export markets that are highly concentrated, even after controlling for measures of value added by exporters. To quantify the role of market power, I propose a model in which farmers choose a crop to produce and an exporter to supply. Exporter market power is driven by two key elasticities, which govern farmer costs of switching crops and switching exporters within a crop. The more costly it is for farmers to switch, the higher is exporter market power and the lower is farmer income. Using the model, I develop a method to estimate these two elasticities from exporter responses to international price shocks. The estimates imply that farmers earn only half of their marginal revenue product as a result of market power. Finally, I evaluate the effectiveness of two popular agricultural support policies in this setting. Introducing a Fair Trade exporter in each crop market reduces market power and increases farmer income by up to 25 percent. In contrast, implementing a price floor reinforces market power and achieves similar gains only if the floor is unreasonably high. Fair Trade can help farmers share in the gains from globalization.