Discussion of: Quality Upgrading in the Colombian Coffee Sector by de Roux, Macchiavello, Miquel-Florensa, Verhoogen

Johannes Boehm[1]

CEPR Applied IO

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[1]Geneva Graduate Institute & CEPR

Research Question

The paper asks the questions:

- are there rents from producing quality? (*yes*)
- how are the gains distributed? (*depends*)

in the context of agricultural production (coffee) in a ~~developing~~ upper-middle income country (Colombia).

What the paper does & how

Rich transaction-level data on the coffee supply chain, plot-level data from farms:

1. Data from a large exporter (=intermediary between producers and intl' buyers) reveals that in the baseline, farmers were **not** rewarded for quality
    - Relationship between farm-gate price and quality (bean size) is flat
    - But exporter's price-quality gradient is positive
2. Sustainable quality program: large western buyer places a **vertical restraint** on exporter:
    - "you deliver high-quality coffee, we pay you a good premium η^R, but you have to pay the farmers at least a premium π^R"
    - Implemented as a relational contract (self-enforceable)
    - Manages to reward farmers for quality (about 10% quality premium, out of 18% export quality premium)

Johannes on a difficult fact-checking mission...

The verdict

This is a fantastic paper:

- Can observe both quality and quality premia along the value chain, outside the MNC's program and under the restraint $\leftarrow$ beautiful!
- Agricultural setting helps with estimating production costs $\leftarrow$ important to discuss surplus
- Important, large-scale setting (550k farming families)

From the perspective of development

Getting firms to upgrade quality is hard (Verhoogen, 2023).

Here, the share of exports or high-quality beans has almost doubled (9% $\rightarrow$ 17%) between 2006 and 2012, and 80% of the aggregate increase is due to the buyer's program (M-MF 2019).

This is a spectacular success.

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Development questions:

1. (first-order) why was the buyer's entry/program so successful in increasing quality?
2. (second-order) does this help farmers? ($\leftarrow$ this is what the paper addresses)

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Comment #1: Tell us more about why this program was so spectacularly successful in increasing quality.

- Role of FNC? (Tech. assistance, agr. ext. services), observability of price paid to farmers
- Feedback from exporters? (Atkin et al. 2017)
- Predictability of demand?

Perhaps attempt to explain some of the heterogeneity in cost/qual (structural) or take-up (linear

From the perspective of IO/org: I

Comment #2: Key to understand how much of the surplus the farmers are getting is what happens to farmers' costs.

$\Rightarrow$ put the cost estimation front and center. This is why the devo audience needs IO!

Agricultural setting facilitates the cost estimation.

Comment #3: What does the MNC's contracts say about quantity, and about dynamics? My (limited) understanding of the MNC's offer is "we buy any quantity at this price, subject to the restraint, and we'll keep doing that"

- This may have helped assure the farmers of demand, but it's a strange contract
- The exporter (without the MNC buyer) would almost certainly not have been able to do it
- If demand for the MNC's coffee capsules goes down, what will happen?
  $\Rightarrow$ interesting question about choice of restraint in non-stationary setting

From the perspective of IO/org: II

Vertical restraint offers buyer the ability to have two means (η^R and π^R to govern both quality upgrading and extraction of rents, instead of just one (η^R)

Comment #4: Why this contract?

- There is a range of different vertical restraints that could be supported by the relational contract.
- This one seems to set a <u>uniform</u> quality premium for the farmers
    1. Are we losing some farmers with this uniform restraint?
    2. How much could we do better?
    3. Unlikely that the MNC knows the "right" quality premium that induces the efficient outcome.

  $\Rightarrow$ are there better ways of finding the "right" π^R?