

**Free Trade or Fair Trade?**  
The Impact of Certifications on Rural Development in Cusco, Peru.



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## Index

<b>Introduction</b> .....	<b>3</b>
1.1 Fair Trade: a market niche as a market social justice movement.....	5
1.2 Rural development in theory .....	7
1.3 Coffee: a commodity in crisis .....	10
<b>2. Fair Trade, coffee and the market</b> .....	<b>13</b>
2.1 Rural Development in Peru .....	13
2.2 Coffee's creation and market share .....	15
2.2.1 <i>Coffee's Odyssey</i> .....	15
2.2.2 <i>Peruvian coffee: market and challenges</i> .....	18
2.3 Fair Trade: Organization and policies .....	20
<b>3. Analysis of coffee for the Cusco region</b> .....	<b>23</b>
3.1 A struggle for empowerment. From Inca rebellion to coffee cooperatives.....	23
3.2 Where does Fair Trade come in?.....	25
3.3 Local challenges .....	29
3.3.1 <i>Market access</i> .....	29
3.3.2 <i>Need for regulation</i> .....	30
3.3.3 <i>The disappearance of a generation</i> .....	30
3.3.4 <i>Malpractice</i> .....	31
3.3.5 <i>Last remarks</i> .....	32
<b>Conclusion</b> .....	<b>33</b>
<b>Bibliography</b> .....	<b>36</b>
<b>List of interviewees</b> .....	<b>39</b>
<b>List of images</b> .....	<b>41</b>

## Introduction

During the past decades the coffee price has been going up and down a rollercoaster, thus making sustainable living, or even living in itself, a challenge for many smallholding coffee producers all over the world. After 1989 coffee prices collapsed so far that some of these producers and their even died of starvation. Around the same time the first official Fair Trade certified coffee made its appearance on the market. It was called Max Havelaar and was the result of cooperation between a Mexican coffee cooperative and a Dutch development organization. Nowadays the stores are filled with more than one certification, ranging from ecological to economical in main interest, or some, like Fair Trade, combining the economical, social and environmental. All of these certifications have the goal of producing better quality of produce whereas at the same time ensuring a better life for the producers. They aim to promote a healthy balance. And this balance is sorely needed. For many years there has been a division between consuming and producing countries. These differences are still a result of the global colonial past. The aim of Fair Trade is to create a more equitable market, where producers gain a fair living. A fair price should reflect the cost of production + cost of living + the cost of complying with Fair Trade standards. By doing this, these producers would be able to work towards long-term goals and drastically improve their quality of life, instead of barely surviving.

In the coffee producing region of Cusco in Peru many indigenous producers have long been left behind in development policies, so the arrival of certifications has the ability to be a saving grace for them. In the research presented in this thesis my goal has been to investigate to which extent the Fair Trade certification has in fact had a positive impact on the lives of these coffee producers and the area in general. The main question for this objective is: What has been the impact of the Fair Trade certification on the rural development of Cusco, Peru? I expect to find that Fair Trade does make a visible difference. However that this difference will mainly be visible when the regular market price is very low. In this way I suspect the certification will mainly function as a safety net. Fair Trade has to navigate within the market to change the market and will therefor most likely be bound to and restricted by those “rules” and the impact it could have, will probably not be of very large proportions. However I do expect to see that by working with Fair Trade certifications, the coffee producers will be able to work steadily towards a more stable and sustainable way of living for themselves.

I have divided this thesis into three chapters. In chapter 1 I will provide the theoretical framework within which this research will take place. Ideas about Fair Trade as a market and as a social movement will be discussed in section 1 of this chapter. The second section of chapter 1 will discuss strategies of creating sustainable rural development and section 3 of chapter 1 will look at coffee as a commodity on the international market. Chapter 2 provides a context for the fieldwork. Here I will discuss Peruvian rural development issues over the past years, the place of coffee within the Peruvian agricultural sector and also the place that Peruvian coffee has on the international market. Aside from that I will discuss the several phases that make up the production of coffee. Lastly Fair Trade policies and organization will be looked at in this chapter. In chapter 3 I will analyze the results from my fieldwork in Cusco, Peru. Here I will discuss the local history and the way Fair Trade has impacted the development of the region and how it could possibly improve.

The results presented in this thesis are based on a combination of literature research and fieldwork. For the literature research I have made use of academic articles on the subjects of rural development, coffee and Fair Trade in different parts of the world and of primary sources, from press releases, websites and other documents of organizations such as Fair Trade International and for example the *Camara Peruana de Café y Cacao*. The fieldwork took place in two different

trips in January and February (the second time with my 1 year old son in tow) of 2018. During these trips I have conducted semi-structured interviews with governmental organizations, coffee cooperatives, NGOs, producers and Fair Trade in Lima, Cusco as well as in the area around the coffee producing capital of the Cusco region, Quillabamba. To also take into account the international and organizational aspect of Fair Trade International, I have also conducted an interview in the Netherlands, with the coffee representative for Max Havelaar.

## **1. Fair Trade and rural development: a theoretical analysis**

This chapter will provide a framework within which the research is set. I have divided this in three parts. The first part discusses the concept of Fair Trade. Here I'll look at what Fair Trade is and what different aspects there are to it. The second part looks at theories about rural development. Creating sustainable rural development is one of the main goals of Fair Trade. Therefor having an understanding of what this entails is essential. The third part looks at coffee as a commodity on the international market.

### 1.1 Fair Trade: a market niche as a market social justice movement

The coffee market has been subject to some alterations over the past years, adding more desire for several niches, like organically grown or Fair Trade coffee. While Fair Trade has grown a lot since its conception, and has become more visible among consumers, for now it is still a niche market mainly desired by ethical consumers (Fridell, 2014: 98). Fair Trade over the years has evolved into its own independent internationally recognized certification system in response to the neoliberal turn-away from public regulation (Jaffee, 2010: 269). In the neoliberal philosophy of free trade, the basic idea is that the market functions without boundaries or regulations. The market should be able to regulate itself and therefor the ideal here is that all government control over the market is removed. This model would bring supply and demand in balance. Before the implementation of this market philosophy, the market was something embedded in social culture, but since the Industrial Revolution societies have started tipping away from social markets, towards market economies (Polanyi, 1944). However the only signals a market can perceive are those of price. Values, like the quality of human interaction, culture, or environmental desires, are not taken into account. While this model works for big companies, the smallholding farmer is left behind. Fair Trade's aim is to change this and create a fair balance between consumer and producer countries.

While Fair Trade as we now know it has only been around for a few decades, the ideology of fair trading can be traced back further. The movement has its origins in Europe, through religious European charities at the end of the 1950s. They operated through sales at small-scale retailers, such as NGOs and specialty shops and were commonly referred to as Alternative Trade Organizations (ATOs). ATOs were created as a response to inequalities in the dominant trading system characterized by post-colonial mechanisms, where Southern countries were mainly dependent upon the production of primary commodities, subjected to oversupply and unstable prices, on which the livelihoods of many small-scale producers depended (Fridell, 2004). Later in the 1960s during United Nations Conferences on Trade and Development the concept of "trade not aid" was developed. This idea was further developed. In 1988, the Netherlands became the first country to launch a fair-trade consumer label, based on the ATO ideologies of equal distribution of wealth in order to promote sustainable rural development. It was called Max Havelaar (Arnould, Plastina and Bell, 2009: 187). It started with the cooperation between a Mexican coffee cooperative and the Dutch development organization Solidaridad. They, like other ATOs, were motivated by goals of self-help, development and social justice and started selling their products in regular stores (Low and Davenport, 2005). This initiative was soon replicated by several other organizations and in 1997 Fair Trade International (FTI) was created to unite all the national Fairtrade Organizations under one umbrella and harmonize worldwide standards and certification. National labeling organizations were given the responsibility of policing upstream market actors licensed to import Fair Trade logo carrying products. They pay an annual licensing fee, which covers the operating expenses as well as education and promotion

activities (Fairtrade International website). In 2000 the organization further changed to where now they work with producer organizations in the different regions, complete with their own local certifying offices (interview Jos Harmsen, Max Havelaar).

Key points in Fair Trade's work rest on three pillars: social, economic and environmental development (Fergus and Gray, 2014:362). In chapter 2 I will discuss the policies more in depth, but in summary the social standards discuss themes like child labor, the need for producers to organize themselves within cooperatives and a social premium given to the producers, which is meant for development projects. The environmental goals, while also promoting sustainability, are much more focused on social aspects than other certification organizations, says Jos Harmsen (Max Havelaar). There is added focus on the farmers themselves. Therefore the policies also discuss for example the health of producers and chemicals that wouldn't be harmful to them (interview). The main goal of the economic pillar is to offer a minimum price, which is secure and offers farmers the possibility to cover their production costs whereas at the same time enabling them to live a sustainable life. This would make sure that the producers do not suffer from the price fluctuations of the free market (Renard, 2010:290). Also there has to be long-term commitment between cooperatives and importers, to guarantee that the producers will always be able to sell their product. They guarantee market access for the otherwise excluded farmer, where on the other end creating the demand for the product by educating the consumers. All these goals are in place to help promote sustainable rural development, for they offer the producer a constant security that allows them to invest and re-invest.

However the difference that Fair Trade can make in the end lies at the side of the consumers and the fair trade movement in Northern countries. In the past few years, there has been a growth in the sales of Fair Trade products thanks to a growth in public desire to be ethical consumers (Fridell, 2014: 95). Activists have pushed mainstream retailers to start selling Fair Trade products. They achieved commitment from big players in the coffee field, like Starbucks. The participation of conventional distributors and retailers in the literature is referred to as mainstreaming. Daniel Jaffee (2007) refers to these collaborations as a possible dance with the devil (17). It is in this dance with the devil that the paradox of the existence and functioning of Fair Trade can be found. In working to help those that have suffered from years of repression from (post)colonial economies, it has to use the very same mechanisms that have caused that inequality (Jaffee, 2007:1). Fair Trade is a social justice movement and a market niche in itself. While social movements in literature are generally studied as civil society versus the state, the theories applying to social movements can also be used when looking at the sphere of agrifood systems, within which FTI operates as well. The only difference is that it aims to serve transformative agendas through the marketplace instead of the public sphere (Jaffee, 2010: 270). How does Fair Trade aim to accomplish this transformation? According to their own Annual Impact Report 2016-2017 FTI changes the way trade works through better prices, decent working conditions and a fairer deal for farmers and workers in developing country. Their vision involves the creation of a world in which all producers can enjoy secure and sustainable livelihoods, fulfill their potential and decide on their future. They are a global movement against the effects of the market on the smallholder. In the way they function, they are located exactly at the intersection between two commonly separated spheres, often opposed to each other: the market and the civil society (Huybrechts, 2013: 115). However as a social justice movement they are also susceptible to common battle tactics of their nemesis, the market. These tactics aim to "capture" the social movement and make it less of a threat to their functioning. Two of these tactics are called regulatory capture and dilution. In regulatory capture actors with a vested interest in the outcome aim to influence the bodies in charge with making the regulations. Dilution is a by-product of

regulatory capture. It focuses on how the involvement of these mainstream actors weakens the standards, aiming to lower the bar for themselves. In the case of Fair Trade their standards determining social justice goals of fair practice and minimum prices would be diluted (Jaffee, 2010:272) and their ability to raise the social justice bar would be transformed into them merely holding the bar and preventing further degradation (Raynolds, 2007:148-150).

The worry about FTI lowering its standards thanks to the involvement of mainstream actors, has been one of the main sources of criteria coming from the fair trade movement. Fair Trade finds itself in a delicate position. In order to make the change they aspire, they need to have buyers. Consumers need to want their product. In order to get the message out there, they need more than activists. The involvement of big roaster retailers, such as Starbucks, does help give more visibility to their products. Aside from that, having a big partner like that also assures that they can sell high quantities. However these big roasters are also their opponents and generally do not have the business practices that Fair Trade preaches. Applying the theories about the capture of social movement, Fair Trade is the social movement and these big roasters fulfill the role of state, benefiting from Fair Trade lowering their standards or having less power over consumers (Jaffee, 2010). While many activists would prefer to see these big players purchase a standard minimum amount of for example 5%, the reality of the matter is that even if 1% of their total purchase of coffee beans is Fair Trade, they are still the biggest off-taker of Fair Trade coffee. This gives them more power than many would like. Many suspect that their influence is the reason that the minimum price has been kept the same for a long time. Between 1988 and 2005, the minimum price has stayed the same, even ignoring inflation rates. Even when producers all asked for a raise of the minimum price to cover their production costs, the buyer's power turned out to be too big (Bacon 2010: 133-134). So even the Fair Trade price wasn't adequate to sustain rural life. While increased corporate influence, caused by the demands of activists, does provide visibility and buyers for Fair Trade, it also seems to be steadily weakening the Fair Trade principles (Jaffee, 2007: 249-268). This is the paradox of working with the system they are trying to change from within. They cannot yell too loud about injustices, because they need the cooperation with their buyers (Bacon 2010: 134), but through this same cooperation principles are watered down. While the main goal for fair trade is to create a more equal balance between producing and consuming countries and provide sustainable livelihoods for (mostly) southern producers, it now appears that Fair Trade mainly succeeds in keeping producers from falling into further or extreme poverty, especially during times of crisis, like the coffee price crisis from 2000-2003 (Ruben, Ford and Zuñiga-Arias, 2009:779). It does appear that so far they aren't succeeding in relieving them from poverty altogether (Jaffee, 2015: 1054).

## 1.2 Rural development in theory

While providing a sustainable living for producers is a very important point for Fair Trade, they also focus on the empowerment of producers. Many producers were often kept in the dark about their possibilities, how to grow, or even how much their products were worth. One of the reasons that Fair Trade chooses to work with smallholding coffee producers is to make sure they gain access to the market, but also access to information. Knowledge is power after all. For farmers to be able to sell their product on the Fair Trade market, they need to be member of a cooperative. This way Fair Trade aims to make room for a more included rural development, the creation of sustainable and higher living standards, which brings me to the next part of this

chapter. This part will provide insight into the factors and theories of strategies to increase rural development.

Development studies provide insight in ways to improve the living standard of the poor, the majority residing in rural areas (Laszlo, 2008:2421). Various studies have looked at different ways of creating rural development by investigating the impact that was created by public policies or projects by NGOs and companies. Rural development has come up as an issue in the mid 1800s when it became clear that just by working on urbanization and urban development alone, you couldn't improve all of the country (Cordóva Aguilar, 2011: 80). The focus on urban development has also created one of the main strategies the rural poor have to escape from poverty: finding non-rural employment. While this may help those individuals that do manage to start a better life in urban regions, it doesn't provide a viable strategy to increase rural development and the living standards of the rural poor. Especially because at this time in our modern history, all over the globe the rural areas are losing the next generation and are left with only the parents, who are getting older as we speak. This chapter looks at strategies that have been tried and researched as possible useful alternatives. I will start by looking at the emergence of rural development as a public issue, before continuing with an analysis of research attempting to put various strategies for the improvement of rural development into perspective.

After World War II had devastated many European countries, the issue of rural development gained in popularity (Martínez Saldaña, 2000:229). This integrated development view put the agrarian problem at the center of discussions. Where before only emergency aid was given, now other programs began to sprout providing direct support to communities or improving the infrastructure (Figallo, 1994:348). And it is a good thing they did. In Latin America for example a total of 44% of the total population lives below the poverty line and from the rural population this amount goes up to around 64% according the International Fund for Agricultural Development (Andersson etc, 2009: 5). Even though these numbers have improved in the last 20 years, still the majority of global poor can be found in the rural areas. Martínez Saldaña (2000) discusses the research of Ángel Palerm Vich, who made it his life's work to study various plans and policies considering regional planning and agrarian reforms. Even though his work has studied projects carried out in the past century, Martínez Saldaña argues that Palerm's findings can still apply today (230). According to him rural development needs to be a compromise between the necessary, the possible and the desirable outcome. In order to really manifest this development, it is necessary to involve those who will be realizing it and those who it will benefit. So a successful project would not just consist of a group of businessmen, who impose guidelines and policies top-down. However it does need to be shared and supported by them (ibid: 231).

This multilinear vision is shared by many other scholars and NGOs, say Sastre Merino, Negrillo and Hernández-Castellano (2013). They argue that the focus of development projects has changed from a top-down and engineering approach to bottom-up. Families and communities often gain a more central role in the implementation and creation of programs and aren't just beneficiaries anymore. This participatory approach creates a certain sense of empowerment that otherwise wouldn't have been possible (221). One of the reasons that this approach is very practical for the success of development programs is that it speaks to their own entrepreneurship in a way that their own resources and lifestyles can be preserved as well. The stakeholders capacities are being taken into account in the creation of economic growth and social development (ibid: 222). This approach views the stakeholders as equal. So there is no superior party involved, like in a top-down, colonialist approach. The only aspect in which the several involved parties differ is the fact that the stakeholders experience technical limitations. The only



“superiority” in question here is the fact that others have more knowledge about or access to the proper training and techniques (Martinez, 1993). This approach also makes for a more sustainable way of developing, because it allows for good interaction with the context the project is placed in. People are placed at the heart and they can implement modifications to adjust to their specific real needs (Sastre Merino, Negrillo and Hernández-Castellano, 2013: 237).

One of the big struggles many rural poor have to work with is the lack of access. There is a difficulty in accessing services, like health care and education, but also to the market. According to Laszlo (2008) education and market development are essential for the creation of sustainable rural development. Both can drastically improve a household’s earnings. Education (be it general education for children or specific training for the producers themselves) is a long-term investment. Improving market access has a more immediate effect (2422). However education is also one of the main reasons a lot of young people leave rural areas. Aileen Stockdale (2006) takes examples from Scotland and argues that only by migrating away from rural areas young people gain the skills that are necessary for the increase of human capital required for successful endogenous development, but the migration back doesn’t occur at an equally frequent level (354). In Switzerland similar situations have been researched, mainly looking at the main reasons young graduates have to stay in the city or do return to rural areas, to implement their knowledge there. While socio-economic status and family relationships appeared to play a key role here, one of the more prominent motives for either staying or returning is job opportunities (Rérat, 2014).

So what are strategies that could be implemented to increase the inclusion of those small producers in the hard to reach rural areas? How to promote sustainable development for the entire agricultural sector, within the context of a market economy so these job opportunities for the next generation will either become or remain attractive enough reasons to move back to rural areas? One of the solutions various authors see as approach to generate inclusive rural development, is collective action at district level. The majority of farmers in the remote rural areas are smallholders. They only have their own plot to tend to and often work here with their entire family. The produce is then sold to middlemen, who mostly give them a very minimal price. For most of these families having proper access to the market or agricultural services are essential challenges. Collective action could help provide them with the access they need. By organizing themselves within cooperatives, they’d have more selling power as producers of a commodity, meaning their market access increases, while also creating more possibilities of facilitating the services they need. Here we can think about services like infrastructure, or proper training to increase the value of their crop, which in turn also increases their sense of self-worth (Andersson, Gordillo de Anda and van Laerhoven, 2009: 134). While in his research Jaramillo Baanante (2009) mainly looks at the role a decentralized government can have in the improvement of rural development, he states that it also takes an active and organized civil society to successfully implement any policy. Another added benefit of being organized in a community is that they have a better voice as negotiator and provide NGOs and companies, wanting to work on corporate social responsibility with the proper partner to organize projects aimed at the improvement of the position of farmers. This can include smallholders into a bigger market and promote fully inclusive rural development (Bitzer, Glasbergen and Arts, 2012: 6).

So even though there are many obstacles to the creation of strategies that include all in the improvement of rural development, there are options to consider. These options seem to have the most beneficial effect for the rural poor if they, the stakeholder themselves, are included in the creation of development strategies. By doing this it is more likely that an effective policy, that really improves the needs of those involved, can be created. On public level one can look at the possibility of decentralization (Andersson, Gordillo de Anda and van Laerhoven, 2009) and from

local perspective it can have positive impact to create organizations, binding various smallholders together in a cooperative that can organize strategies to improve their common goals, such as market access, agricultural services and training, for together they have more to offer buyers of their product and provide an easier way for corporations or NGOs to organize partnerships aimed at market access, such as with FTI.

### 1.3 Coffee: a commodity in crisis

For most of us coffee is merely the warm comforting black liquid that we consume for a pick me up on days of tiredness, but for many people in the Southern part of the world, it is their livelihood. In this part I will look at the role coffee plays as a commodity on the market and what factors played a part in the creation of the coffee crisis.

During colonial times colonies were used as producers of primary commodities like cotton, sugar, and coffee. The fact that these countries still are the main producers of these primary commodities is a leftover from those colonial structures (Maizels, 1992: 7). Coffee, like other commodities, has made quite the Odyssey. It originates from Ethiopia where Dutch spies managed to smuggle the beans out and started cultivating them in their colonies of Java and Ceylon. It quickly became a popular beverage all over the world. With increasing demand, the production also increased and the coffee tree was transported to the Caribbean by the Dutch and to Brazil by the Portuguese. After the coffee rust disease wiped out the coffee plants in the East Indies these new locations, especially Brazil, became the dominant players in the coffee production (Luttinger and Dicum, 2006). After the independence of the old colonies, they needed to find a way to participate in the international market and the production and export of commodities became their biggest source of capital, creating a dependency on the value of these commodities (Fridell, 2014: 31). Because of the increase in demand and dependency on their export products a new technique of sun-growing coffee was developed. It allowed for higher amounts and higher income. This technifying of coffee is one of the main reasons according to scholars that the recent coffee crisis happened.

Before the 1980s, coffee was seen as a benign export product. Thanks to this many coffee producers started producing coffee and only coffee, turning it from a shock absorber into a full pillar, leading to a situation of dependency and vulnerability. This later turned out to be a gigantic liability when the state influence disappeared (Jaffee, 2007: 41). In the 1980s the western world was also hit by an economic recession, which led to the decrease of consumption of raw materials. Many commodities entered a crisis, with a strong economic and social impact (Maizels, 1992: 15 & Jaffee, 2007: 48). For coffee this general commodity crisis was paired with the breakdown of the International Coffee Agreement (ICA) in 1989. The ICA regulated prices for producers and consumers and dictated quotas, which were met with the standard prices, but in 1989 the ICA collapsed (Jaffee, 2007: 42). Coffee producers already received much lower prices than what coffee is worth, for it had to pass through many hands before reaching the consumer. After the collapse of the ICA the distribution of income became even more tipped towards the northern side, leaving the south with a meager 12%. At the same time five big players emerged, who started controlling 2/3 of the coffee market. The crisis was and still is not globalized, but it is highly local and one-sided (Bacon etc., 2008: 6-8). Jaffee (2007) confirms this saying the only real winners are the large multinational coffee roasters who managed to generate higher returns at lower costs. While farmers starved, the “Big Five” reported record profits (49).

Enter the giants Brazil and Vietnam in the playing field. The emergence of Vietnam as a coffee giant could not have come at a worse time for producers, say Luttinger and Dicum (2006).

The coffee prices at the time were already as low as they had been during the Depression, but also national coffee boards were rendered useless as a result of structural adjustment requirements imposed by institutions like The World Bank and IMF. While they hadn't been perfect representatives, they did provide some shelter and representation for producers. Shelter they now lacked (100). Also thanks to The World Bank's policy of neo-liberal production and export led way out of poverty, they very much supported the increase of technified coffee production in Vietnam in the 1990s, transforming them from an insignificant blip in the coffee market to the second largest producer of coffee in the world. Brazil wasn't new in this field, but reorganized their coffee growing. While they have seen many rises and falls over time, their increased ability to grow coffee in a mechanized way rendered others utterly powerless (Bacon etc. 2008: 45-46). This drastic sudden oversupply reduced the purchase price from 30-33% to 8% in 2001 and farmers receive even less than that. They often don't receive enough anymore to cover production costs. The coffee crisis has contributed to a social meltdown affecting an estimated 125 million people from Central America to Africa. Pickers lost jobs, leading to famine, people dying of starvation, and others faced possible land repossession by banks (Jaffee, 2007: 46). At the same time the world also saw a rise in the production of coca and poppy, when farmers transformed their coffee plots into drug fields in an attempt to survive. Many others opted for migration after they dropped into extreme poverty (ibid: 72).

Many authors speculate that the implementation of certification, such as organic or fair trade, can give an outcome in protecting producers from such shifts in their income caused by oversupply and the ever moving commodity price. The last few years coffee has seen a surge in price again, but the market remains highly unstable and can turn at any moment (Maizels, 1992 & Jaffee, 2007 & Bacon etc. 2008). Until 2007 prices didn't recover at all from the crisis years. In 2011 they boomed once again, but within two years they had fallen again, causing the International Coffee Organization (ICO) to show concern about the fact that many producers might be selling their products for a price which is not remunerative compared to the cost of production. In 2014 prices went back up due to a drop in global supply caused by a draught in Brazil. While this, and the graph pictured in image 1 on the next page are merely charting the price rollercoaster of coffee, actually riding this rollercoaster, like the producers do, must feel utterly unsafe (Fridell, 2014: 1-2). Alternative market models or ATOs can help reduce the livelihood vulnerability to the crisis in conventional coffee markets (Bacon etc, 2008: 173). And the need for some sort of safety net or regulation is dire, for in Latin America coffee is one of the most valuable commodities exported, seconded by oil and illegal drugs, and is capable of generating immense wealth, or in times of crisis, immense poverty, hunger and despair (Fridell, 2014: 3).



*Image 1. Price of green coffee over the years.  
Source: Tradingeconomics.com, consulted 24/01/2018*

#### 1.4 Concluding remarks

In this chapter I have discussed the main theories that apply to this research on the impact of Fair Trade certification on the creation of sustainable rural development. FTI has a double role of alternative market and social movement. These two different faces create different kind of impact and work separately and together. The main goal is creating an equal distribution of wealth through the creation of a fair market. By working on this, they want to create sustainable rural development. Coffee was the first commodity being traded with a fair trade certification. As I have pointed out above, this could have the potential of creating major impact. The coffee market has been highly unstable for years and many producers have suffered from the ever rising and consequently falling prices, making it almost impossible to create sustainable rural development. Lack of rural development shows itself in no access to basic services, like healthcare, education and infrastructure. Many scholars have pointed out that social mobilization in the form of cooperation can be very helpful in the creation of rural development. This is also one of the main social policies of FTI, and could potentially create a big impact. This is something I will further analyze in the upcoming chapters, where I will look at coffee production and rural development of Peru and specifically the *cafetaleros* of the region of Cusco.

## 2. Fair Trade, coffee and the market

This chapter will provide a practical context within which my field research is set. In this chapter I will discuss the rural development of Peru, past and present challenges and continue to explain more about the coffee making process and the part coffee plays for Peru's market and in its rural landscape. Lastly I will look more at Fair Trade International's (FTI) policies considering coffee and regional developments, to provide a framework and deeper understanding of the organization the producers have to work in.

### 2.1 Rural Development in Peru

In a recent study conducted by The Worldbank it appeared that the agricultural sector of Peru has seen a steady average growth of 3,3% per year. Compared to other sectors within Peru and the same sector in the region (Andes countries) this growth is relatively high, according to the Worldbank (2018). In this study they also recognize the need for a strong rural sector, as it would diminish the overall dependency upon other countries. This study looks at the growth for the entire national agricultural sector. When putting numbers next to each other, you can see that the rural input from coastal areas saw a growth of 7,2% yearly, logically meaning that the highlands and the jungle area are left behind in this process. *'I don't know why they are saying Peru isn't a third world country anymore,'* says Juan. Juan is a young coffee producer from Cajamarca, who is currently working in the office of Comercio Justo Peru (CJP) in Lima. There he represents young people and helps gain clearer insight into the situation of rural Peru and how Fair Trade could make a deeper impact. He continues: *'Maybe the total wealth has increased, but it isn't distributed. The rural areas are completely left behind and find themselves in the same situation they have always been.'* Of all the poor currently living in Peru it is mainly the Andean region where these households can be found. 53% of Peruvian's poor households are located in this region and of all the people living there 70% still lived in absolute poverty in the 90s (Figallo, 1994:346). This situation is caused by a centuries old division of power, where the political elite lived in Lima and viewed the indigenous population of the Andes as naïve and worth less than the people living on the coast. Most policies that have been created for economic and social development, have for this reason also taken place in that area, leaving behind the more indigenous and harder to reach communities living in the Andean Highlands. The table on the following page (image 2) also shows the division of poverty in Peru and how, even though total poverty has gone down, and rural poverty has too, there is still a disproportionately large part of extreme poor found in rural areas (Morley, 2017).

The general process of rural development in Peru has also been challenged by other factors over the last three decades of the past century. Economic growth was generally less than 1% per year. On top of this the rural population of the Andes were further impoverished by terrorist violence and a general economic crisis (Andersson, Gordillo de Anda and van Laerhoven, 2009: 115-116). Apart from that parts of Peru were also hit by natural disasters, like El Niño (1982-1983). All in all there have been many challenges on the path to Peruvian rural development (Aguilar, 2011: 82). In the 90s this improved a little, with an annual increase of 6%, which was more than the Peruvian economy as a whole. While overall growth was considerable, the distribution of wealth remained unequal, like Juan indicated is still the case, leaving small producers in Andean communities behind (Andersson, Gordilla de Anda and van Laerhoven, 2009: 116).

	Rural and urban poverty shares		Population shares	Poverty incidence		INEI
	Extreme	Total		Extreme	Total	
2004						
Rural	0.72	0.39	0.26	0.43	0.85	0.83
Urban	0.28	0.61	0.74	0.06	0.48	0.48
National				0.16	0.57	
2012						
Rural	0.76	0.47	0.22	0.21	0.55	0.53
Urban	0.24	0.53	0.78	0.02	0.18	0.17
National				0.06	0.26	

*Image 2. Division of poverty in Peru  
Source: Morley, 2017*

Peru counts as one of the most diverse countries in the world, geographically and culturally speaking. And even though it has a fairly centralized regime, it is a country of significant ecological diversity. This is thanks to the Andean Cordillera, which offers unique conditions for development of agricultural activities (Andersson etc, 2009: 113). While this is the case, it also provides the rural population with a big challenge: access (something that was also pointed out as one of the main rural development obstacles in chapter 1.2). The Peruvian rural population struggles to gain decent access to services, like health care and education, but also to the market. The higher altitude makes for less concentrated economic activity and less infrastructure. This creates an obstacle for their ability to access markets and the local policies need to reflect the regional differences (ibid: 2425). The rural poor in the Peruvian highlands also have a lack of adequate agricultural services (Andersson, Gordille de Anda and van Laerhoven, 2009: 114). Over the past few years, there have been some attempts from the Peruvian government to overcome these geographical difficulties and help address local issues. They initiated decentralized executive departments, by the name of Agroideas. The main goal of these departments is to provide local organizational structures, such as cooperatives, with financial support for technical issues. While in Cusco, I talked to the representative of Agroideas Cusco, Vladimir Sequeiros Boza. He told me about projects they help finance. For a few cooperatives they have helped purchase a truck to transport their products from the entire area to Lima. For another cooperative they helped financing a processing plant. Agroideas finances up to 80%, depending on the total amount needed and the size of the cooperative (if it is bigger it can carry more of the investment. For smaller groups it is harder to make a bigger investment). The other 20- 40% often comes from sources like the social premium Fair Trade offers for the coffee beans.

While this locally focused help is needed, it only reaches those that are already organized in some way or another, with the prerequisites of having a clear structure and transparency. The main help for the independent producers of Peru has to come from municipalities. Here corruption is often an issue, say both David Mora from COCLA tours and Hebert Quispe from *Cooperativa Agraria Cafetalera* (C.A.C.) Huadquiña. Corruption is a structural problem on many organizational levels. Cooperatives have also not been able to remain immune to this phenomenon. David Mora talks about how the government has invested a lot of money in agriculture over the years, but without much positive impact. *‘What they do is organizing*

*workshops or courses. They invite their own friends to speak at these courses, so they make the extra money. But often those people don't know what they are talking about and don't have the specific or practical expertise the producers actually need. This way it seems like work is being done, but the only people benefiting are the course instructors and not the producers or course participants.'* In my conversation with CJP they also explain to me that most of the projects and initiatives in place, are aimed purely at increasing the quality of production, but in the end do nothing to help with market access. So as soon as the projects are over, the producers are left with their products, without knowing how and where to sell them. Another issue they mention in local rural development is that most of the governmental policies are focused on bigger properties and private enterprises, but according to Lucho Suarez from CJP, those only make up for about 10% of the country. Thanks to the *Reforma Agraria* in 1969, where land was redivided amongst families, now all the other ones are still smallholding families who often feel a complete distrust for any organizational structure and policy because of their past with abuse. There is obviously still much work here, and little trust.

## 2.2 Coffee's creation and market share

The past section explained the challenges in general for rural areas and specifically the Andes in Peru. In this section I will look specifically at coffee. First at what it takes for the product itself and secondly at the place it takes in the market and economy of Peru.

### *2.2.1 Coffee's Odyssey*

To go from crop to cup, coffee goes through various phases. Every single phase adds its own signature to the end product and with this signature comes value. The phases are: growing of the berries, picking, processing, drying and bagging. These coffee bags are then shipped to the country of consumption, where they are roasted, ground and brewed. So let's take a look at these steps and their social, economical and environmental impacts.

Coffee grows on trees that can grow to about 30 feet. However for cultivation purposes many producers keep it at a height of 8 feet. This makes it easier to tend to the trees and pick the berries. It takes about two to three years for coffee trees to start bearing fruit. From then on they go through two-year cycles, where there are two good years and two lesser years. The good years can create excessive surpluses for the farmers, while the lesser years can be devastating for farmers or even regions. Apart from that coffee is susceptible to various pests, like coffee rust disease, and can be damaged by climate changes. Frost can wipe out an entire field, like has happened in Brazil a few times (Luttinger and Dicum, 2006: 60). Trees generally have a producing life span of about 30 years and peak in their production between 15 to 20 years. As you can see, the planting of coffee trees is a long-term investment and logically most farmers wouldn't choose to quickly uproot their plants during times of low coffee prices. Originally coffee was shade grown under a canopy of many other trees. This makes the traditional production of coffee one of the most bio diverse ones in the world and coffee plantations are sometimes referred to as coffee gardens. These other shrubs provide a safety net for farmers, giving them products for their own consumption or to sell on the local market if the coffee prices were to fall (Bacon e.o., 2008: 33). This traditional and more environmentally sustainable system of coffee growing is found in most places in Peru.

While shade grown coffee may be the traditional and more sustainable option of coffee growing, it is not the only way. When the consumption of coffee all over the world increased the

“Green Revolution” started, with the help of USAID and the International Monetary Fund (IMF). Increasing production to increase a country’s export. In order to increase yields per acre a technique was developed to grow coffee in the sun. This technique is referred to as technified coffee and has had an immense influence on the coffee market (which will be elaborated in part 2 of this subchapter). The technified coffee growing technique, while yielding four times more cherries per acre, has a lower net revenue per acre. This is due to the fact that these trees are more susceptible to pests and require more fertilizers and chemicals. This also has consequences for the health of the people working the fields and the quality of the soil and cleanliness of the water. However, because USAID and IMF have been actively subsidizing technified coffee between 1973 and 2001, the amount of sun grown coffee plantations is enormous. Especially in Brazil, number 1 producer of coffee in the world, you can find a lot of these plantations (Luttinger and Dickum, 2006: 57-58) competing with the non-technified smallholders in countries like Peru. There have been many farmers who swapped to sun grown coffee motivated by higher yields. This also has the effect that the fall back option of other produce in times of lower coffee prices disappears. Apart from that it also obviously creates a loss of biodiversity and poses a health hazard, that can decrease the standard of living later on and increase a vulnerable livelihood (ibid: 54-55). Another reason many farmers did opt for the technical coffee form of coffee growing, is that it is an easier way that does not require certification. The costs of inspection for organic, or any other sustainability label, is too high for many farmers and obviously it takes a lot more hours of labor year round. So even though shade-grown coffee does generate higher revenue per acre in the long run, many farmers opt for the easier, certification free generated income that the higher yields in technical farms can offer (Jaffee, 2007: 148).

After the growing is done the picking starts. In some areas coffee ripens all at once and can all be picked by a machine or, if machines are not available, in one big harvest. This method is called stripping. In other areas picking is a more labor-intensive job. These are mainly locations where there is a fairly steady rainfall year round. The coffee plants here can bear fruit all year round and generally have flowers, unripe cherries and ripe cherries all at the same time (Luttinger and Dicum, 2006: 63). In the coffee production this is where most work comes in. Stripping can be a one-man job, but if the berries need to be picked by hand, you need a lot of extra workers to pick all the ripe berries before they fall of the trees. Many smallholding coffee producers need their entire family to participate in the work at harvest time. For farmers with small families it becomes a necessity to hire helpers, but not everyone can afford to do this and have to let some cherries fall and rot. It is not worth it to harvest (Jaffee, 2007:121).

The picked cherries need to be processed fairly quickly. Some smallholders don’t have the facilities to do this and have to sell the cherries at a low price (without any added processing value). These farmers are often forced to accept coffee prices 50% below their export value (Barry, 1987:27) The processing can take place in two different ways: wet or dry. The names speak for themselves. The dry processing lets the cherries dry in the sun on a patio until the cherries are completely dry (after about four weeks). In the wet processing method, the cherries are filtered in water where the cherry comes of. The beans are then evenly spread out on a patio as well and have to dry, while being raked several times a day for twelve to fifteen days to assure even drying. The cherries are often dumped in rivers leaving big piles of rotting fruits, polluting the water. However most organic farms use them to make natural compost, leaving the need for chemical fertilizers (Luttinger and Dicum, 2006:64). For smallholders without their own facilities being a member of a cooperative can be very beneficial, for there they often have the ability to provide drying patios and depulping machines to add value for the farmers (Jaffee, 2007: 50).



From here the beans are put in jute bags and stored in a storage depot in the country of origin, where they sometimes stay up to two years in an attempt to regulate the flow into the market. Export then goes in various ways, depending on the country of origin, some through private exporters, others only through government coffee boards (Luttinger and Dicum, 2006: 65). Once exported they are sold to roasters, who roast the beans giving us the flavors that we know and sell it. This is where most of the value is added in the end. Image 3 gives an impression of what percentage of the total value ends up where.

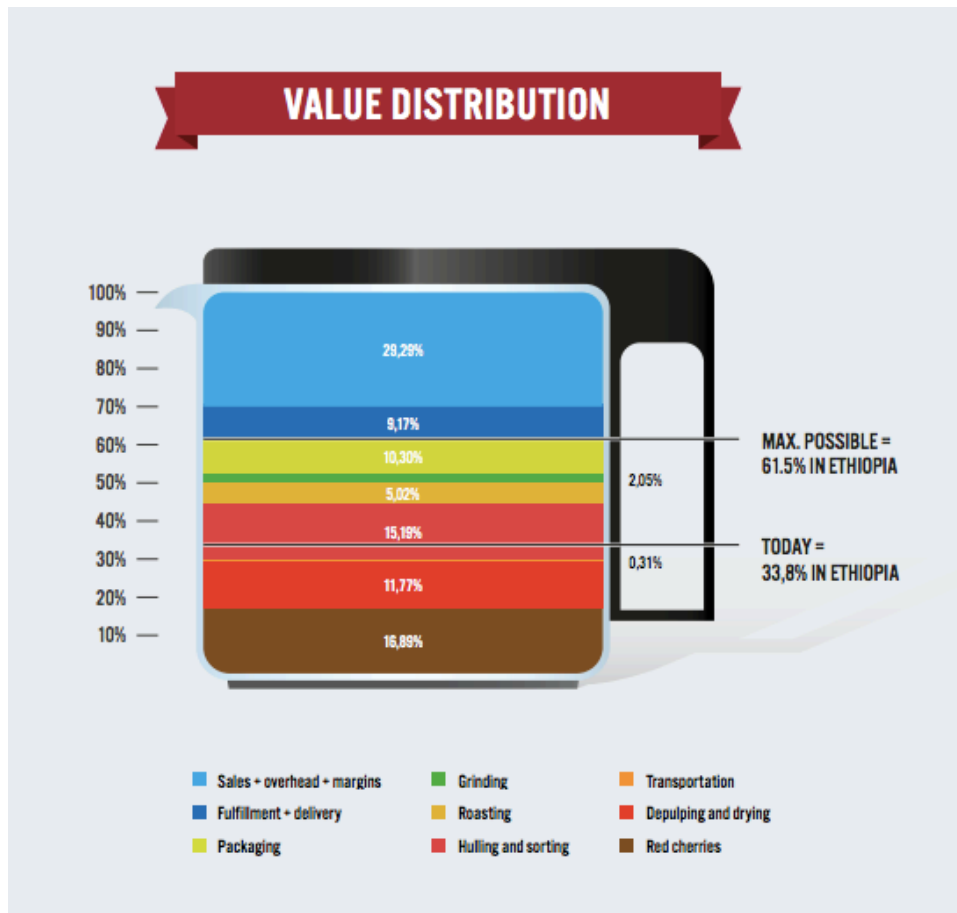


Image 3. Value distribution of coffee from crop to cup  
Source: Moyee coffee Impact Report 2016

After depulping and drying, you are left with green coffee. This is the stage that is the most subjected to the fluctuations in the market, described in section 1.3. The other stages, with added on value are fairly stable and do not suffer from the price rollercoaster like green coffee, and therefore also the coffee producers, does.

I do need to add that after roasting the beans their expiry date moves up a lot. Unroasted beans can be kept for up to 2 years, whereas as soon as they are roasted, they need to be sold and consumed within 6 months in order for the quality to stay the same. This is one of the reasons many producing countries haven't moved to selling a finished product yet. Doing this would mean, they'd need to have stable contracts with buyers, ensuring that they can ship their products as soon as it is roasted. The shipping itself can often take up to a month or longer, depending on the destination, so once arrived at the country of consumption it would need to be sold quickly.

Jos Harmsen also indicated that this process for now is still too complicated, too risky and improbable so FTI hasn't made the effort yet to invest in this. For now it is only smaller companies, like the above-mentioned Moyee (self proclaimed first seller of Fair Chain coffee), that deal in smaller quantities of coffee and have direct sources that can afford to do this. However for bigger quantities and coffee that still passes through more links, this isn't a viable option yet.

### 2.2.2 Peruvian coffee: market and challenges

The Junta Nacional del Café (JNC), an organization that supports the empowerment of coffee cooperatives all over the country, is located in Lima in the same old colonial building as CJP. There I talked with Lorenzo who told me all about the Peruvian history of coffee. Coffee arrived in Peru between 1742 and 1760. The first coffeehouse opened in 1771, but it wasn't until the 19<sup>th</sup> century that the importance of coffee for the Peruvian economy increased thanks to more gained territories in the Amazonia. This is also when coffee arrived to Quillabamba, where I would travel a few days later. They started cultivating the area with coffee, sugar, cacao and coca, mainly for national consumption. In the 20<sup>th</sup> century coffee started gaining visibility in the international market. Many people from the Andes came to work on the *fincas* and learned how to cultivate the coffee plants. In the 50s there was a large agrarian social movement in Peru. People stood up against the abuse of workers in the system, for on these fincas they were treated like modern slaves. This uprising led to the *Reforma Agraria*. Land was reorganized, like I mentioned in section 2.1, and distributed amongst families. During the years to follow many families organized themselves within cooperatives to help with market access and commercialization. At first there was a lot of support for cooperatives and organized producers from the government. There was a public organization to help with the export of Peruvian coffee and the ICA decided on quotas and stable prices. At this time (70s and 80s) about 80% of all Peruvian coffee came from cooperatives and about 20% from private companies. Now coffee accounts for about 12% of Peruvian agricultural export, but due to terrorism and an economic crisis, which also impacted the rural area, most of the original cooperatives have disappeared.

The *Camara Peruana de Café y Cacao* (CPCC) is an organization that helps link companies to coffee producers. They work for the companies and are thus more focused on the market and quality aspect of coffee production. In their study of the market for Peruvian coffee they found that the coffee sold can be divided into three segments: conventional (88.8%), certified (9.8%) and specialty (2.4%). On world level, Peruvian coffee is found within the second category of quality, coming after Colombia who by itself takes up the first category. In contrast with the export division earlier mentioned, now 40% of coffee is exported by national companies, 40% by multinational companies, and only 20% by producer organizations, such as cooperatives. The last 20% focuses solely on certified coffee (CPCC, 2017). This is interesting to notice, for this means that while 20% of the coffee is produced with certifications such as Fair Trade, organic and Rainforest Alliance, less than half is actually sold at the certified price. Still in the graph shown in image 4 (CPCC, 2017: 41) you can see that producer organizations do receive a higher average price for their products:



Image 4. Average export price according to export category (multinational, business, and producer organization)  
 Source: CPCC, 2017:41

Another project that is shared by both the CPCC and producer organizations like *Central de Cooperativas Agrarias Cafetalera* (COCLA, about which I will explain more in chapter 3) is the research of the national market and ways to increase the local coffee consumption. As explained above, coffee passes through many links before it gets to the consumer. In my conversation with Juan at CJP he explained to me that this is where the main problem lies with coffee. There may be a lot of production and it may be a large part of the Peruvian agricultural export value, but for the producer it is still not viable. Due to all the links in the commerce chain, the money that actually reaches the producer is still very little. Increasing the national consumption of coffee might help in creating a higher and more stable price for producers. The coffee wouldn't have to go through the same amount of links that are found in the export chain. So far most of the locally consumed coffee, says Vladimir from COCLA, is conventional coffee and mainly soluble, imported by companies like Nestle. Here lays a possibility for Peru, he thinks. They could create their own soluble coffee and make them more self-sustainable. While this is an interesting topic and creating a self-sufficient market is definitely something that needs to be explored when talking about rural development, for the national market Fair Trade certification does not make a difference (there is no market for Fair Trade in Peru at the moment), so for the purpose of this investigation I will leave it at this for now.

Like mentioned earlier, Peru is one of the most bio diverse countries in the world. There are many regions suitable for growing coffee. However there are a few issues that have been challenging the coffee production. One of those is climate change. While Peru isn't as affected by this as much as other countries, it remains an issue nonetheless. A possible solution is to move production up to higher altitudes, but because it is smallholders producing most coffee in Peru

this does propose a big problem. Moving production would either mean leaving families without income, or moving entire communities to other communities that traditionally have other sources of income (CPCC, 2017: 67). Another problem for Peruvian coffee production is *la roya*, the coffee rust disease that has wrecked havoc among Peruvian coffee fields between 2008 and 2012. Now stronger more resistant trees are being distributed, but this is done without good research about its quality. COCLA is working on this now, tells Vladimir, to find out which resistant trees have the highest quality at which altitude. This way in the future, they don't have to suddenly respond to emergencies, but are prepared and know how to solve these issues in a sustainable manner.

Now that I have introduced some issues facing the Peruvian coffee production, like coffee diseases and the possibility of selling products at the right price on the right market, I will move on to discussing Fair Trade, their policies and developments on general organizational level and specifically for coffee.

### 2.3 Fair Trade: Organization and policies

According to the International Fair Trade Association there are ten standards that Fair Trade Organizations, such as FTI, need to uphold to enable disadvantaged producers to engage with markets on more equitable terms:

1. Creating opportunities for economically disadvantaged producers. Traditionally small holding producers have been found at a disadvantage due to having to compete with plantations, with better possibilities of implementing machines, cheap labor and other cost of production decreasing methods. This is why Fair Trade aims to give these disadvantaged producers an extra advantage to have a better position at the world market.
2. Transparency and accountability. This requirement is for all involved partners: retailers, FTI and the cooperatives it works with
3. Capacity building. To build their own independence, Fair Trade provides continuity, during which producers and their marketing organizations can improve their skills.
4. Promoting Fair Trade. The organizations raise awareness and the possibility for greater justice in the world trade.
5. Payment of a fair price. Fair here means it needs to be fair in the regional or local context, covering cost of production + cost of living + cost of compliance with Fair Trade standards.
6. Gender equity
7. Working conditions. The working environment needs to be safe and healthy for producers.
8. Child labor. Here Fair Trade Organizations follow the UN Convention on the Rights of the Child. If the child participates it needs to be in a safe manner that does not adversely affect their well-being, security, educational requirements and need for play.
9. The environment. Fair Trade encourages better and more sustainable environmental practices
10. Trade relations. The relations are long term and based on solidarity, trust and mutual respect. (Hutchens, 2009: 58-60).

The policies are mainly directed at smallholders since they are the main victims of the international trade system. However a few years ago FTI has started with the certification of plantations. This started with bananas, because there weren't enough smallholders in the banana production to be able to fulfill the consumer's requirements. According to their own website the

standards for hired labor are mainly focused at the right to organize themselves and at creating equitable working conditions. There need to be security and health regulations in place and the workers need to receive a higher minimum wage than the regional average (Fair Trade International, accessed March 2018). Lucho Suarez from CJP explained that they are fairly upset about this development, because Fair Trade was created to help smallholders gain a stronger position within a competitive market. This development has now created the need for them to compete within the Fair Trade market itself. FTI does not want or need to certify coffee plantations for now. 70% of the world production comes from smallholders, so there is enough quantity from smallholders alone (Jos Harmsen, Max Havelaar). According to a statement from Fair Trade Foundation UK the current global Fairtrade coffee market is still too small to support both small farmers and plantations: currently less than half the total production volume of Fairtrade certified farmers' groups is sold on Fairtrade terms because worldwide demand is too small to absorb it all. Bringing plantation grown coffee into the Fairtrade market would further dilute the position of the small farmers' organizations. Therefore the FTI policy remains that the potential for estate owners (and farm workers) to enter Fair trade markets will be postponed until such time that the market has grown to such extent that they can be absorbed without undermining the position of the small coffee farmers' organizations (fairtrade.org.uk, accessed March 2018).

While this is the policy of FTI, internationally there has been some movement in this area. Fair Trade USA separated from FTI some years ago and in 2012 they have started certifying coffee plantations, awakening the anger of the global fair trade movement. The displeasure this aroused amongst the producers is due to a longstanding tension between the founding values of the fair trade movement (mentioned above) and the profit-driven ethos of the fair trade market (Cole and Brown, 2014: 51), like I also discussed in section 1.1. Fair Trade producers in Peru have felt the effects of this and have started another certification to add to Fair Trade, *Simbolo de Pequeños Productores* (SPP).

Another critical note that has to be added to the actual practice of these policies is the creation of the minimum price. The minimum price is said to be fair if it fulfills the requirements mentioned above, so it needs to include the cost of living. However according to Jos Harmsen Fair Trade only makes 4 differences in the global coffee price paid to producers, these are: arabica, robusta, organic arabica and organic robusta. The price per kilo paid for the beans is the same no matter where the coffee comes from, but the cost of living does differ per region. While those distinctions haven't been made yet, there have been some organizational changes for FTI in the past few years; one of them involving a bigger participation for producers in the international organization. In the year 2004 the structure of FTI changed to where now they had producer organizations in every continent. These bodies are responsible for both the certifying procedures locally and to provide feedback and influence in FTI. FTI is the umbrella organization that until 2012 (when Fair Trade USA started including coffee plantations) determined all the global standards for fair trade criteria. FTI grew in such a way that it wasn't sustainable anymore to keep the entire organization at a European level. These producer organizations are closer to their beneficiaries, which decreases the certification costs (it is no longer necessary to have someone travel from Europe for all checks and technological support), and they have more direct and practical knowledge of the local circumstances and know what they can and cannot ask from the producers, explains Jos Harmsen in our interview in Utrecht. They aren't just there to overlook the process on location; the producer organizations are co-owners of FTI. So they take half the board positions and are very much part of the policy making process. For Latin America and the Caribbean the organization is called: *Coordinadora Latinoamericana y del Caribe de Pequeños*

*Productores y Trabajadores de Comercio Justo (CLAC)*. CJP is the national part of Fair Trade for Peru. While in their national board they do have a representative from CLAC, they aren't necessarily part of CLAC. They are the local Fair Trade Organization and mainly help with lobbying and providing information to cooperatives. They work closely together with the JNC, which is conveniently located in the same building. At the moment they are talking with government officials about the possibility of taxing the social premium that cooperatives and producers receive on top of their standard income. I will share more about this in the next chapter.

While there have been organizational changes, there are still a few issues that from theoretical point of view could do with improvement or more regionally specific determination. Aside from that there appear to be contrasting policies from FTI and Fair Trade USA, bringing confusion to the entire process for producers. Like I mentioned in this chapter rural Peru, and especially the Andes region, has not been growing and developing as much as the other sectors and regions of Peru. This is due to socio-historical patterns, but also climate and terrorism. However thanks to its altitude and high biodiversity, it is an excellent region for the production of coffee in a traditional way. Therefore it will be interesting to look closer at this part of Peru. In the next chapter I will do that and look at the impact Fair Trade has had on rural development on a local level for the coffee farmers in the Cusco region.

### 3. Analysis of coffee for the Cusco region

Peru itself is the most bio diverse country in the world and this is visible by traveling through the region of Cusco alone. In Cusco the main area of coffee production is around the city Quillabamba, which is located on the outer parts of the Amazon jungle, where Machu Picchu is also located. To get there, there is one road you can travel by car. This road was not asphalted until a few years ago. While this has improved over the past few years, there are still many days where no cars can pass because of the small rivers flowing over the road, which increase in size and force during the rainy season. We are lucky and can travel easily without fallen rocks blocking the path, or forceful rivers that would inhibit our safe driving. First we have to cross a mountain pass at an altitude of 4400 meters. After this the road dwindles down and follows the Urubamba river back to an altitude of around 1050 meters. And within 30 minutes the landscape already changes dramatically, from bare hills to luscious rain forest. The temperature also changes from around 10 degrees Celsius to 26. It is the perfect climate for coffee production.

I arrive at the start of their carnival. While Cusco itself is a touristic hotspot, Quillabamba isn't very high on the touristic radar yet. Its main source of income is the production of coffee and cacao and this features prominently in their carnival too. The first night is completely dedicated to chocolate and coffee and producers from all around come to the market on the square to show off their products. They tell me Quillabamba used to be fairly wealthy thanks to the production of cacao and coffee, but the past few years this has fallen, because of the problems that COCLA has been having. COCLA is a second level cooperative, an umbrella organization that at his height had 22 cooperatives for cacao and coffee under its wing, counting 8500 producers from the area. Now they only count 13 cooperatives. Cooperatives are essential to the Fair Trade policies. In this chapter I will look at the impact the Fair Trade policies have had on the life of coffee producers in the Cusco region.

#### 3.1 A struggle for empowerment. From Inca rebellion to coffee cooperatives

The strong presence of agricultural cooperatives in the region is no surprise. During my stay in Quillabamba I find many timelines in restaurants and the local museum. These timelines describe how this area was the prime location of Inca rebellions, like the one of Tupac Amaru II in the 18<sup>th</sup> century. These timelines then continue to the start of agricultural social movements in the 1950s. Hebert Quispe, president of the C.A.C Huadquiña tells me that after the Cuban Revolution, Che Guevara also came to the region of Cusco to mobilize groups. The workers of the *fincas* had been oppressed for centuries and as a result they decided to found a union to fight for their rights. Huadquiña was the first labor union in the area. When the state didn't listen to their complaints a peasant movement started, leading to the *Reforma Agraria* on November 16, 1962. Hilario Perez, a coffee producer living at one hour from Quillabamba, has lived through this revolution and tells me how he was imprisoned multiple times during those years. He is still very grateful for the results their fight has brought them. He does say that if there hadn't been such abuse and oppression, there probably wouldn't ever have been the need for the peasant movements and things might have continued the way they were until now.

The land was redistributed amongst the former workers, who now became independent producers, and the unions were transformed into cooperatives in 1964. The first agrarian cooperatives in Peru are from this same region where the Inca rebellions also took place. Maranura and Huadquiña being among them. There is a big sense of pride of independence here,



but also distrust of any governing authority is still firmly rooted in the minds and hearts of the producers of Cusco. In 1967 the coffee and cacao cooperatives of the area organized themselves together and created COCLA. This was a very empowering step, tells Hilario. He was one of the founders of COCLA (the last one living) and was the youngest to be in the direction at the age of 26. The cooperatives themselves weren't big enough yet and grouping them together in one umbrella had the purpose of increasing their commercial power on the market, but also functioned as a way of increasing their knowledge and rights. Vladimir Bidel works at COCLA and tells me that being such a big organization with so many members, COCLA also has a very substantial social and political power. Social because all of the members of cooperatives in the area come from traditions of service and they often don't feel like they are very worthy. COCLA and its member cooperatives work to change this. They organize courses and workshops to increase their members' confidence and mental capacities and as such work for the empowerment of their members.

Due to its size and the organizational changes COCLA has gone through over the years, it has also succeeded in changing the image of Peru as a coffee producing country on the international market. Before, the producers didn't have a notion of organized production and the preferred method of working was chaos. They didn't make for very dependable commercial partners. Under the supervision of the UN this changed and little by little they started creating a more stable work ethic. That way they were a stable source of coffee and could offer this to their commercial partners on a regular basis. Another aspect that has increased thanks to COCLA and its member cooperatives is the commercialization of coffee. Before, all producers had to sell their beans to passing merchants who abused their position by paying prices that did not honestly represent the value of the product. Through organized sales the producers have a better sense of the value of their product. This is not only beneficial for the members of the cooperatives, but also for other producers in the region who see what their neighbors are selling their product for. *"Quillabamba used to be very wealthy. Thanks to COCLA there was production and sales, keeping this city and area in a flow of wealth,"* tells a citizen of Quillabamba. *"However that changed and now we are almost back to before. I moved to Cusco to look for better fortune."*

This change occurred around 2010. COCLA kept on growing and soon didn't have any examples anymore from other organizations they could learn from. According to Vladimir Bidel this created relaxation and arrogance amongst the direction and the entire organization. Once you start going down that road, it is harder to come back. When the director died in 2010, it generated many financial and social problems and it became apparent that there was a large debt. Out of the 22 member cooperatives 6 left COCLA and started working independently (like the aforementioned C.A.C. Huadquiña), 1 cooperative ceased to exist, 2 became inactive due to lack of funding and the 13 cooperatives that were left stayed with COCLA, because they weren't big or organized enough to be able to survive independently. Many producers who before were part of one of the cooperatives, like Hebert Barrios, decided to leave their cooperatives as well. Hebert Barrios himself moved to a national producer organization called ASOCASEL. The fall of COCLA also generated a decline of local economy. This is partly due to the fact that producers and cooperatives connected to COCLA weren't able to find financing anymore. Normally being a member earns the trust they need to apply for finances to make improvements and the investments necessary for production. After the fall of COCLA banks did not have the faith anymore and many producers and cooperatives found themselves in a position where they couldn't tend to their fields as they would've and had no way of working on the development of their business. Now COCLA is growing again and they hope to keep growing more, but the trust people had in them has suffered a big bust and it will be a lot of work to earn that again. Vladimir

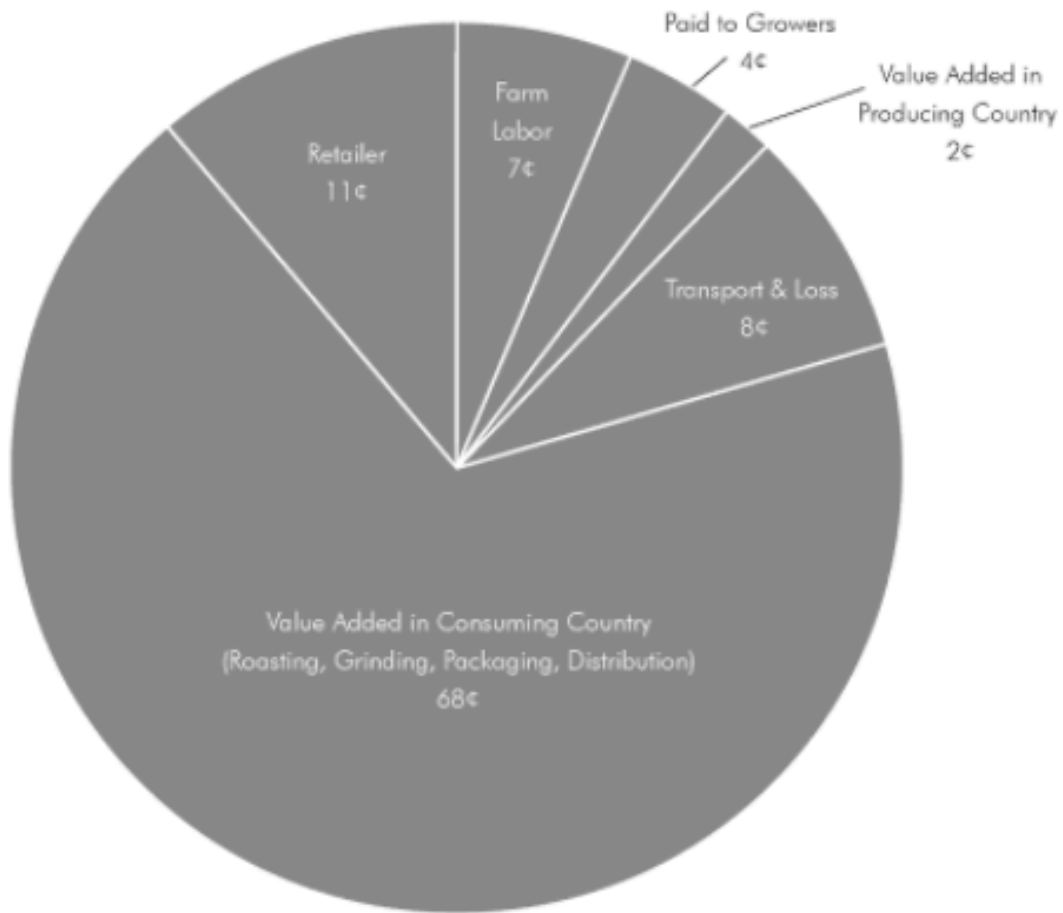


thinks that in this situation certifications play an even bigger role than they did before. Especially the social premium has been essential in the rebuilding process. How certifications help and how Fair Trade is seen in this area is the subject of the next part.

### 3.2 Where does Fair Trade come in?

In some countries, like Ethiopia for example, all coffee exported leaves the country through a governmental organization and under supervision. In Peru private companies, Peruvian and non-Peruvian, export the coffee. Organizations like the *Camara Peruana de Café y Cacao* (CPCC) protect the interests of those companies and help them find good business partners. On the other end of the coffee chain there are the producers. For them there are two channels they can choose; operating independently or organized. The organized producers have either an association connected to private companies that arrange the export of their products (like ASOCASEL). The same goes for cooperatives, with the difference that cooperatives are producers organizing themselves and governing themselves. According to Lorenzo from the JNC almost all cooperatives in Peru have some form of certification, organic, Fair Trade, Rain Forest Alliance, or a combination of a few of them.

Independent producers have three main alternatives: for export they sell to merchants. The price they receive for this coffee is significantly lower than cooperative members and is highly unstable, changing from year to year. The higher price that cooperative members receive is thanks to the certifications that cooperatives are able to obtain for their members. These certifications do require more work for their members to keep the quality up to standards. Another option is selling on the local market. According to market research from CPCC and COCLA the coffee that is consumed most on the local market is conventional coffee of lower quality. This means that the price is a lot lower, even though it does pass through less links on its way from producers to consumer. The last option producers have is finding direct purchasers. I spoke with Don Felix, who sells his coffee in his own hotel, but also has direct purchasers coming from Japan. They come to his farm and take the coffee with them for their coffee shop. He receives a much higher price for this compared to his neighbors and is very proud to know where his high quality product is going and who is drinking it. The family Perez shared that there are more people in the area who choose to work this way. Not everyone has the resources to have the high quality of production required for this, or the commercial insight needed to succeed this way. But for those that do it makes quite the difference. Where Hilario and his family receive 320 soles per 50 kilos for their harvest, their neighbors with the direct commercial contacts receive 500. Juan from CJP also talked about this issue of the coffee market in general: *‘The main problem with coffee is that it has to pass through so many different links. All those links take out extra money that could have gone to the producer.’* He pours me a cup of coffee to illustrate the value: *‘This cup is about 20 grams of coffee. You’d pay 7 soles for this in a coffeeshop. Producers only receive about 7 soles per kilo. And that is after it already has gone through all the work of producing, processing, drying and selecting quality.’* This is further illustrated in image 5 on the next page.



*Image 5. Where a Coffee Dollar goes*  
 Source: Luttinger & Dicum, 2006: 119

The message is clear and is also repeated by all the producers I talk with in Quillabamba. Coffee by itself does not earn a living. Somehow more links need to be removed. Cooperatives and Fair Trade could play a better role in this process. Ideally the journey coffee makes in the Fair Trade system would be like this diagram:



*Image 6. Fair Trade coffee journey*  
 Source: Hutchens, 2009: 60

So if coffee itself does not earn a living, does Fair Trade certification and the higher price connected to it make a difference at all? Hilario explained to me that in order to harvest all their trees, they need to hire workers. To be able to do this they need coffee price to be at least 300 soles per 50 kilos. There have been many years where the price dropped below that line and those years it wouldn't be possible to harvest all the coffee, further decreasing their income. Luckily he and his family are members of a cooperative that is Fair Trade certified, meaning they always receive a minimum of 320 soles like I mentioned above. This means they can hire the help they need and have a bigger harvest, increasing their income. However a large part of this income goes straight to the payment of the hired workers. Hilario does not see this as a bad thing though. *'Thanks to the Fair Trade minimum price, we are always able to hire workers. This means the plus we receive is distributed amongst the community here. It does not only stay with us, but benefits others in the area as well.'* Other producers have found other solutions. Hebert Barrios has a system of work exchange with his neighbors. This system is called *ayni*. It means that they work one neighbor's plot first and the other one the next day. This way they can all harvest everything without having to pay the extra money for hired work. The higher Fair Trade income he receives thanks to his membership of ASOCASEL is for him alone. Both Hilario and Hebert proudly show me the new kitchen they could build thanks to their extra income. Their kitchens are outside underneath a roof. Before, they used to cook on wood, filling the entire area with smoke, negatively impacting their health. Now they have a wood stove with a chimney. So while it still isn't much compared to what we have, it is a big improvement for their health.

Of course the stable minimum price is not the only benefit Fair Trade offers its certified producers. There is also the payment of a social premium on top. This is logically only given for the coffee that is actually sold at the Fair Trade price. Vladimir Bidel tells me that even though Fair Trade certifications started to be incorporated in 1995 in all their member cooperatives, at first the actual Fair Trade sales weren't so high and therefore neither was the social premium. Now it accounts for about 50% of the total sales. This premium is added on and divided according to the member's wishes. Generally the division looks like this: 10% goes to the strengthening of the organization, 10% to technical support and 80% is decided by the member's assembly. Some choose equal distribution; others choose things such as creating processing plants. Hebert Quispe Palomino (C.A.C Huadquiña) is very happy with the possibilities the social premium offers them. They have for example invested in workshops to increase the member's self esteem with it. Especially after the trouble COCLA has been having there was a need to regain trust and these workshops have the ability to make this happen. He also says that in their assemblies they teach their members to reinvest the money from the social premium. Many of the producers are so accustomed to surviving day to day, that they have never learned how to look ahead and create a more stable future. In these workshops the cooperative teaches them about reinvestment. At first they have already made the primary investments and started their farms. Now from their income they need to reinvest and improve what they already have. This way they learn to look at what their priorities are. By doing that they can move beyond just surviving and towards sustainable development. So Hebert thinks that thanks to the social premium of Fair Trade members can grow sustainably and learn how to focus their funds. In chapter 2 I explained about Agroideas. They generally fund 60-80% of projects they approve of. The other 20-40% is funded by the cooperatives themselves and these extra funds are often financed by the social premium. The extra income Fair Trade provides is not very impressive and at times of a high price at the market Fair Trade certification offers the exact same amount for coffee, so for many the added value that Fair Trade has to offer really is the benefit of the social premium. It helps in the empowerment of

producers as individuals, looking ahead at the future and deciding together what they need to invest in.

Another thing that Fair Trade promotes is stable contracts. They provide a market and the buyers need to commit to buying from the same source for multiple years. In Peru these stable contracts have allowed cooperatives to start back up in the 90s, going back up to a total of 140 cooperatives in 2017 after having been left with only 12 in 1996 due to the economic crisis, migration and terrorism. At the JNC they support the cooperatives and their development, because they have proven to be so beneficial to the increase of self-esteem amongst producers and to an increase of the knowledge about to (economical) worth of their work. Cooperating and being able to offer a steady and reliable source of coffee beans gives the buyers the faith they need to keep on working with cooperatives on a steady basis and allows them to be able to create policies and make reinvestments. It also decreases the number of links in the coffee chain before reaching the consumer. Juan does say that this is something that Fair Trade could do better in, because even though it does decrease the number of links, there are still too many there for it to be a sole source of sustainable income for producers. This is illustrated in image 7. Fair Trade relationships (dotted lines) eliminate some redundant linkages.

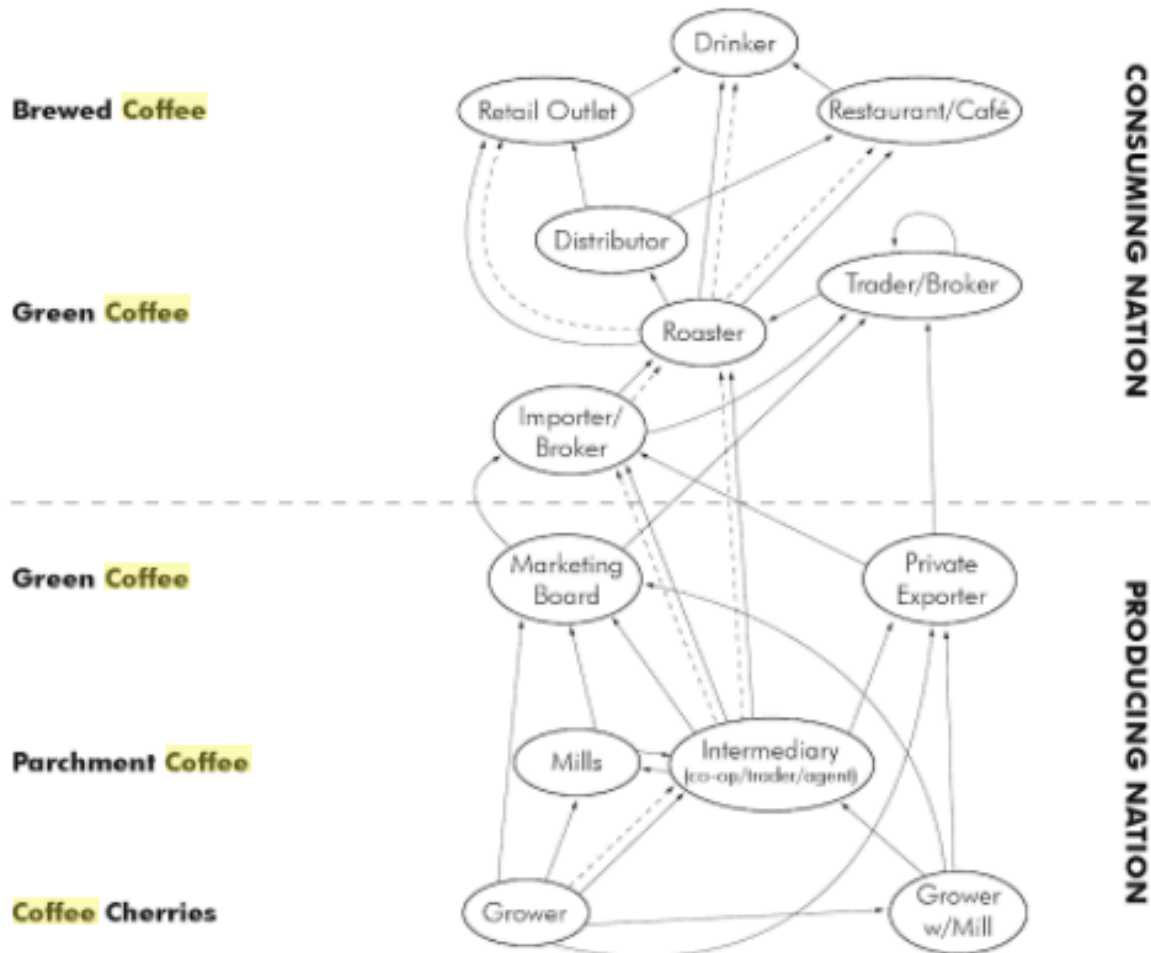


Image 7. Links in the coffee trade. Fair Trade (dotted lines) vs Free Trade (regular lines)  
Source: Luttinger & Dicum, 2006: 114

### 3.3 Local challenges

When considering all the benefits of Fair Trade and cooperative membership mentioned in part 3.2, it sounds like it should be every producer's dream. Also when talking to producers in Quillabamba, everyone agrees that the existence of Fair Trade is in fact a good thing. Yet not all producers are members of cooperatives. Why wouldn't they do this, when it seems like it provides the member producers with so many benefits? Producers and organizations alike agree that FTI does not have enough understanding for local circumstances of coffee producers. The policies are uniform and there is no special attention for different circumstances. For example one of the issues that has been prevalent in Peru is the feeling of distrust between the government and the agricultural cooperatives. According to David Mora, Vladimir Bidel (COCLA), Hebert Quispe (C.A.C. Huadquiña), Lucho Suarez (CJP) and Lorenzo (JNC) the Peruvian government appears to be unwilling to work together with cooperatives and imposes higher taxes on them than on businesses for the exact same product. Considering the fact that cooperatives feel like they are the logical result of years of social upheaval and revolutions, one can see where this mutual attitude comes from. However it is not constructive to the creation of sustainable rural development. At the moment the Peruvian government is also considering taxing the social premium that cooperatives and their members receive on top of the coffee price. The JNC, and CJP in lesser extent, are working to prevent this from happening, as it is mainly the social premium that they have been putting towards enabling reinvestments and improving the quality of production and life. This has allowed them to create services and possibilities that the government has not been able to offer them so far.

So what are the other local circumstances that challenge the sustainable rural development of Cusco and what is done to work with this? I have narrowed this down to four main issues. These challenges are all mentioned in the following sections. I will also touch upon some ways Fair Trade and cooperatives are working with these issues.

#### *3.3.1 Market access*

As I mentioned in sections 1.1 and 2.1, producers need connection to the market. There needs to be improved physical access. Over the past few years this has improved. The Ministry of Infrastructure has worked on the roads and where until 5 years ago the road to Quillabamba was still muddy and unpaved, now there is an asphalted road. However not every producer is on this road. People like Jovita Figueroa, an independent producer of coffee and citrus fruits, has to walk for two hours and then drive for another two to reach Quillabamba. Especially for independent producers this distance is a very big issue. Cooperative members have it somewhat easier. Vladimir Boza Sequeiros (Agroideas) tells me how a few of them got together and bought a truck to help transport the coffee from the region to Lima. This is a good example of how the social premium cooperatives receive is being put towards the overcoming of a local challenge. The cooperative members gathered in an assembly and voted on the purpose of the social premium. In section 3.2 Hebert explained about how they aim to teach producers how to reinvest to improve their production and commercial success. His cooperative was one of the ones that joined in order to purchase this truck. Many producers would generally vote to distribute the social premium equally, says Vladimir Bidel (COCLA), but through workshops where they teach the participants about sustainable development, they are able to empower their members to dare to look at their

production in long-term aspects and find solutions to recurring problems. However this does need the active involvement of the cooperatives.

So far I have only described the physical access. There is also the question of sales and reaching markets. Cooperatives have a big part to play in commercialization, and Fair Trade does aim to offer stable sales for their members. For most cooperatives what happens is that there are development projects, with the goal of increasing quality or quantity of the product. Then afterwards nothing is done to help create the connection between producers and buyers, so the producers are left with their increased product, but do not know how to reach a market to buy it.

### 3.3.2 Need for regulation

When the ICA was still in effect they imposed regulations on the quota per (importing and exporting) country and dictated a stable price. Now there is a lack of this international or national regulation resulting in frequent overproduction, which drives down the coffee prices. For the producers working with Fair Trade certification, this problem is experienced in two different ways. Not all products that are produced within Fair Trade standards and quality are sold for the Fair Trade price. The producers do put in extra work, but the market for Fair Trade products isn't big enough. While this is also a general issue with Fair Trade globally, the local aspect of it, is that it is hard to motivate the producers to put in this extra work. Vladimir Bidel complains that most people that work for CJP and host the workshops aren't committed enough. *'To really make Fair Trade work, everyone that works for and with Fair Trade needs to believe in it a 100%'*. He explains that in most workshops the Fair Trade system is explained in a very dry way. *'If you sell it to us, you always get this price. Unless the market price is higher. In that case you get the market price. On top of that you will receive a social premium and you will decide on the purpose for this premium in your assembles.'* Vladimir sees that this does not create enough motivation for the producers. *'The way I like to approach this is with a game. Every producer gets to act out one part of the coffee chain. This way they can actually see and feel where the impact of the changing coffee price takes place. After this workshop they realize that they (the producers) are the only ones that are really impacted by changing coffee prices. This way they understand why the commitment to Fair Trade is important.'* While this has local impact, it is an issue that needs international and global attention. In order to increase the market for Fair Trade products, FTI would need to assume more of a role as social movement and impact that change of consumer attitude. Producers need an understanding of why it is important to stay committed to FTI, but the same goes for consumers. Without purchases, there is no market. Without the market, there is no impact on local level. And without the movement, the market will not grow.

### 3.3.3 The disappearance of a generation

The younger generation is leaving the countryside. Some communities now only consist of elderly people, like the community of Huyro. There I visited with the coffee and tea producing family of Hilario Perez. His three kids still work with him on their shared farm, but they appear to be the exception that confirms the rule. Vladimir Sequeiros Boza (Agroideas Cusco) thinks there might be need create a new structure, to increase the involvement of young people. Possibly Fair Trade could provide the stimulant for them to stay. For now CJP does have projects and workshops fully directed at the younger generation. Juan is a young coffee producer, working at the office of CJP in Lima now. He is responsible for finding ways to involve young people. He does understand why that is very hard to do. Coffee alone does not make a living, like stated

before. Fair Trade wants to improve the education of the children of producers, but by doing so, they also get an idea of what else there is for them in the world. Many move to cities to find these better opportunities and modernity. Most coffee producing regions also lack real state involvement. They lack basic services, such as electricity, health or infrastructure, explains Juan. Without this state involvement into the development of rural areas, nothing much will happen. *‘For increasing involvement of the next generation it is a good thing though, that there are so many links in the coffee chain. This way, if they aren’t part of the production, we can encourage my generation to work in other parts, such as quality testing, exporting, cooperative administration.’* This approach is also something cooperatives have been looking into. C.A.C Huadquiña for example has been organizing quality-testing workshops for example, where they invite the adolescent children of their members. One of the participants appeared to be talented and was sent to Lima, also from funds from the social premium, to become a professional taster. She now works in the cooperative and helps the producers understand how the quality of their products could be improved the next year. While similar solutions do increase the involvement of the next generation, they still often do not want to go back to producing coffee, or rural life in general.

#### 3.3.4 Malpractice

Peru suffers from corruption on a lot of levels. Within the government there is corruption, but also in some cooperatives. This only adds to the feeling of mistrust the producers already have towards authority, and this is also the reason many producers do not wish to be involved in cooperatives, says Hebert Barrios, producer with ASOCASEL. He himself left his cooperative after years of malpractice, where he didn’t receive the Fair Trade plus or social premium, which stayed with the direction. Also the problems that COCLA has been having have resulted in a lot of producers leaving the cooperatives and venturing out on their own. One of the objectives of FTI is creating transparency and accountability. However there is no one that checks if this is the case, or no one that helps to create this way of accountable and transparent leadership. This is something CJP could play a bigger part in. For COCLA in their first years the help in creating this way of governing came from the UN, but for smaller member cooperatives this help is hard to find.

Hebert adds that many cooperatives actually do not trust their members either. Many only come and join when the coffee prices are low, so they can benefit from higher prices and then leave as soon as the international market price goes back up, leaving the cooperatives with contracts, but no products. C.A.C. Huadquiña is one of the first ones to incorporate membership requirements. Ever since the fall of COCLA they have had a growing necessity of incorporating these. Now new members have to pass through a few steps before they can become member and according to Hebert this process has dramatically improved the quality of the members, to where now there is mutual trust between the direction and the assembly.

Then there is still the issue of the extra work they have to do in order to guarantee quality and fulfill commitments and contracts. Vladimir Bidel also has a creative way of creating the motivation to participate: “Say you are parents and have children. You do everything you can to make sure those children will go to school and when they are finally old enough, you send them to university and to go to the city to live there and study. You send them your hard earned money every month. But what happens if one day you find out that your child isn’t actually studying? He is using the money to go drinking and partying. What do you do? Maybe some samaritan mothers will keep sending money their way from the goodness of their heart, but probably at some point

you stop doing that. If he doesn't do what you dedicated this money to, then it isn't worth it to send it. The same happens with Fair Trade. This right here is the lungs of the planet. So people who pay the extra money for the products, expect to see something in return too, just like the parents in the story. They expect to see that nature is well taken care off, and that the money they pay extra is invested in something that actually helps with the development of the region and community." This way the producers aren't just the beneficiaries, but they become part of the Fair Trade movement.

### 3.3.5 Last remarks

According to the theories on rural development I discussed in chapter 1, one of the main ways to improve rural development is through organization. My research in Quillabamba has given me this same impression, through seeing the work cooperatives do in the region and the role they play in improving the empowerment of their members. However there are still many producers that aren't members of cooperatives and have no way of certifying themselves. Producers like Jovita hope to become a member, but still need to get her production up to standards to fulfill the quality and stability that membership requires. Other producers, like Ruter Quispe just have no desire to be, because they feel the cost of certification are too high. For other producers it is a matter of pride. Don Felix is an example of this. His main reason to be independent as a producer has to do with pride. *'In the cooperatives they throw everything together in big bags. Everyone's products are mixed and then sold as a whole. They mix good and bad quality together. But if you grow apples, and you have one bad apple, that isn't an apple you would send to Chile [export]. So why would we do that with coffee? I grow pure and good quality arabica coffee and I want it to stay pure.'* This sense of pride is something that is recognized by cooperatives too. Hebert Quispe (C.A.C Huadquiña) tells me they have now started selling special coffee. Producers can decide whether they want to participate in this. It takes a lot of extra work, but their products are worth a lot more and sold at a much higher price. This is not connected to Fair Trade, because as of now FTI only looks at organic/non-organic or arabica/robusta. They don't make a difference for special quality. The producers that participate put more work in, but in return they receive more and their coffee has a more individual touch to it. Hilario Perez would like to do this too. He thinks it would be wonderful if within Fair Trade there would be room for excellence. This way he could team up with some other cooperative members in his community and put their face and story on their products. He is proud of his work and sometimes feels saddened to know he has to sell it all to his cooperative (such is his the agreement many cooperatives have with their members) where it is mixed with everyone's else's.

While many feel this pride for their work, not all have the commercial abilities needed to fully succeed independently. Don Felix is a strong business man aside from being a great coffee producer, but this isn't for everyone. For those people the membership of a cooperative does make the difference. Hilario Perez' reason to stay within the cooperative is another. He knows how it was before. *'If only young people would know how it was before and what struggles we have gone through to get to where we are now. If they'd know how it was before, maybe they would feel more pride to be involved in the creation of a stronger future.'* For him and others that have lived through these changes, the presence of strong cooperatives and the arrival of certifications like Fair Trade have made all the difference in their quality of life. However there is a need to grow and adapt to current challenges if the process of rural development would continue. FTI has played an important role in the past and could play a part in this, but also has many developments to go through before it can reach that point.



## Conclusion

In the past most recent years the Fair Trade movement has succeeded in creating visibility for the Fair Trade certification on the market. Where once it featured only coffee in some Dutch supermarkets, now there are multiple Fair Trade products on the shelves of many stores in most of the traditionally consumer countries. Having all these products brings a message of an equitable market, but does the Fair Trade certification make that difference they stand for? Do they in fact have any positive impact on the rural development in the traditionally producing countries? In this thesis I zoomed in on the coffee-producing region of Cusco, Peru to see how and if Fair Trade has created an impact on the rural development of the region. Based on this research I come to the following conclusions.

In order to create sustainable rural development scholars point out a few essential aspects that can increase the efficacy of the process. One of these is the involvement of the local stakeholders. Originally many policies to increase rural development came in the form of aid. However Fair Trade works with the idea of “Trade, not aid”, where local stakeholders themselves play a key role in their own empowerment process. This is essential, because it is only the stakeholders who know and experience what it is they need and where there is lack. This is an area that could still use some work for FTI. Over the past years positive developments have been happening. The existence of the Latin American producer organization Coordinadora Latinoamericana y del Caribe de Pequeños Productores y Trabajadores de Comercio Justo (CLAC) and other producer organizations in different continents and the fact that these organizations own half of FTI shows that more attention is being given to producers. However policies of FTI are still very broad and generic. FTI wants to give producers a price that reflects their work and helps them sustain their living standards, but the price for coffee is the same in every continent, while living costs vary from place to place. Apart from that every country has its own challenges. While for some the biggest difficulty in creating a sustainable life from coffee production is the coffee rust disease, for others government involvement is a major obstacle. Local Fair Trade organizations, such as *Comercio Justo Peru*, could have a bigger role to play in the creation of fair local conditions.

The above-mentioned involvement is on the organizational level. On production level there are also more possibilities which could be developed. To qualify for Fair Trade certification (as with any certification), the producers need to fulfill certain standards. These standards mean extra work, energy and often also higher production costs for the producers. My research confirmed what other authors found as well. It is hard for cooperatives to hold onto producers. There seems to be a loyal center, producing families who have been in the cooperative for generations, but aside from that many join a cooperative only in times of hardship (low coffee prices). They either leave the cooperative or rather sell their products independently instead of to the cooperative in times of higher coffee prices. Most do not know exactly why it is they are doing this extra work. The organization, in the way it is operating now, does not motivate them enough to stay loyal. This provides difficulties for the cooperatives. One of the other policies of FTI is the need for long term contracts. This way producers can depend on someone buying their products at all time. However when the cooperative itself is not able to fulfill its side of this contract, it makes it harder for their business partners to have faith in their abilities. They will logically look for coffee elsewhere. Vladimir Bidel explained that in order to improve this situation, everyone involved with Fair Trade needs to be motivated and fully believe in the positive impact Fair Trade can create. This belief needs to be shared by the trainers, local

organization, cooperatives, as well as the producers. One way that has come up to improve producer involvement and motivation is by creating a specialty coffee niche within FTI. At the moment the only distinctions made globally are (1) between arabica or robusta beans and (2) between organic or non-organic. Fair Trade could add a variety of specialty coffee of higher quality and single sourcing. This ensures that the producers that do put more effort into their coffee than others are eligible for better margins and are rewarded accordingly.

On the flip side of the Fair Trade involvement coin, we find the Fair Trade consumers. The market for ethical products has grown in the past decade. Still not enough consumers are willing to pay the higher price for these products. Like I explained in section 1.1 Fair Trade has two faces; that of the market and that of the movement. It seems like the emphasis has been put more on the market aspect. Jos Harmsen of Max Havelaar described this as follows: *‘In working within the market and with the market, it is hard to be a loud critical voice. This critical voice should come from an external party and not Fair Trade. If we as FTI start criticizing too much, consumers like supermarkets will turn away from us. So we need to somehow find a good balance between being a critical voice and making sure our products are being consumed.’*

Their desire to find this constant balance does appear to have the effect that at the moment there is more coffee being produced on Fair Trade terms, than sold. The market aspect, that has the main focus of FTI right now, is not big enough to make the real changes towards an equitable market. Local representatives on the consumer end, such as Max Havelaar in the Netherlands, could have a bigger role in creating a higher level of consumer awareness. In order to operate successfully both producers and consumers need to be motivated to go the extra mile. Jos Harmsen also adds that he hopes that the future of Fair Trade won't necessarily be the label. Thus they will act more as a voice and fighter for sustainability and that they will be able to contribute to the organization of policies of commercial partners to help promoting this. The end goal is that Fair Trade won't need to exist anymore, because it is something so natural to the market and society. The road to this level of sustainability (economical and ecological) is still a long one. Consumer awareness needs to be increased and Fair Trade as a global social movement could have a bigger role to play to make this happen. If Fair Trade works more as social movement, the chances of the Fair Trade market growing would be higher as well. This would mean more products would be sold at a Fair Trade price and more benefits will go to the producers. In that way the level of sustainable rural development would be increasing resulting in the development of a globally operating equitable market. FTI could also look into creating more specific policies for local situations. Local organizations in the producer countries could receive a bigger responsibility here. In operating in that way the certification can tackle the local issues that currently still prevent the creation of sustainable rural development and of a fair market for local producers. In general this could be established through, for example, helping decreasing the number of links in the chain coffee has to pass through from producer to consumer. In Peru these would include dealing with such issues as corruption and transparency, government involvement and cooperation, and increasing motivation of producers to participate.

For now it seems that the main benefit achieved by Fair Trade certifications can be found in the existence of agricultural cooperatives and in the social premium. The impact of collective action on sustainable rural development is also something I mentioned in section 1.2 and Fair Trade certification does stimulate this. Producers who are organized in cooperatives or other organizations acquire more selling power, and therefor also more political and social power. This increases their market access, while at the same time creating more possibilities of facilitating the services they need. FTI purely works with and promotes producer organizations. Globally, both producers and cooperatives have indicated that this is one the best things about FTI. It helps

create a feeling of empowerment thanks to social cohesion. Apart from that FTI adds the social premium to the purchasing price, with the requirement that the member assemblies of the cooperatives decide how they want to invest this money. With transparency and workshops, leaders can teach their members to reinvest these funds properly. They learn how to create long-term goals and how to work towards them. This has increased physical market access, but also a sense of empowerment amongst the producers. They themselves work to make a better future for themselves and they themselves choose how to do this. This way these coffee cooperatives have been able to develop services for themselves that the government hadn't given them access too as of yet, such as physical market access.

While Fair Trade certification has had a beneficial impact of the social rural development, the economical impact appears to have been slow and limited. Rather it has the characteristics of a safety net preventing extreme poverty, than of a way out of poverty. It does, however, contribute to the creation of a stable, be it low, income for an entire community. Because producers receive a base price for their coffee, they are always able to hire help to work their land. This means the income from the coffee does not just stay with one family, but is redistributed amongst their entire community, ensuring the survival and hopefully economic development of more than one. In the free trade market the coffee price is so volatile that it is often uncertain whether or not producers have the funds to work their entire fields. Fair Trade certification does provide this stability and certainty. This conclusion collaborates the findings of other authors (Jaffee, 2007 for example) in their Fair Trade research. The security of having a minimum price to build on, provides benefits to both producers and their communities. Thanks to this stability the families themselves have been able to make living standard improvements, but for example building a safer kitchen for themselves, which in turn improves their health situation. Improvement is small, but it is visible.

Fair Trade has come a long way since its inception as Max Havelaar in 1989. They have developed from offering a single product from only one region in Mexico sold in a small number of Dutch supermarkets into a globally recognized certification standard with many different products and families involved. With the help of certification standards such as Fair Trade, producers have been able to fortify themselves in organizations and cooperatives. These have led to social empowerment and, albeit slowly, also generated some improvement of living standards. Fair Trade International has thus gradually contributed to building sustainable futures. There are still many challenges they will have to face and solve the forthcoming years. These challenges involve creating a higher level of involvement of producers and consumers, increasing the market for Fair Trade certification through the growth of a global ethical consumership and finding ways to incorporate local circumstances preventing sustainable rural development in producing countries. Fair Trade certification has made a difference. It could still do a lot more if it is to effectively fulfill its own objectives of creating a fair and more direct market in which coffee producers can make a sustainable living and work towards a better quality of life. Lorenzo from JNC says: *'Fair Trade has been good at repairing damage and improving the situation for producers, but is no guarantee for ending poverty. It just makes the despair smaller and the organization and self esteem higher. Apart from that a lot of other work still needs to be done. The community has seen a transformation though, so Fair Trade does add value.'* CJP agrees with this statement.

There is a lot to improve before worldwide smallholding producers can survive solely of the production of commodities such as coffee. Still it is clear. Producing coffee through Fair Trade has far more positive impact for these producers than without the existence of Fair Trade.

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### List of interviewees

Interviewee	Affiliation or role	Discussed themes	Place and date
Jos Harmsen	Supply and development manager Max Havelaar	Development of Fair Trade, Fair Trade and coffee production, consumer involvement	Utrecht, 17/11/2017
Vladimir Sequeiros Boza	Coordinator Agroideas Cusco	Peruvian rural development, importance of agricultural, government involvement, cooperatives and producer organizations	Cusco, 16/01/2018
Lorenzo	President Junta Nacional de Cafe	Coffee and cooperative history of Peru, role of cooperatives, struggles with government past and present, impact of Fair Trade	Lima, 13/02/2018
Lucho Suarez and Juan	Coordinators Comercio Justo Peru	Fair Trade history Peru, impact, challenges, Fair Trade and coffee, general coffee business, producer visibility on international level	Lima, 13/02/2018
David Gonzalez	Project coordinator	Peruvian coffee market, Peruvian coffee on international market, quality of coffee, corporate involvement	Lima, 13/02/2018
Hebert Barrios	Coffee producer, representative ASOCASEL Quillabamba	Coffee production: varieties, diseases and techniques, cooperatives and producer associations, disappearance of next generation, impact Fair Trade	Quillabamba, 16/02/2018
Jovita Figueroa	Coffee producer	Independent coffee production, certifications, sustainability of coffee production, cooperatives	Quillabamba, 16/02/2018
Ruter Quispe	Coffee producer	Independent coffee production, certifications, sustainability of coffee production, cooperatives	Quillabamba, 16/02/2018
Vladimir Bidel	Administrative director COCLA	History of COCLA and role in area, Fair Trade: involvement, benefits and possible improvement, challenges in	Quillabamba, 19/02/2018

		coffee production, developments in coffee consumption world wide, consumer awareness	
Hebert Quispe Palomino	President C.A.C. Huadquiña, representative Peru in CLAC	CLAC, coffee cooperatives, history, development and current practices, good membership, malpractice, cooperatives vs corporations vs government involvement, Fair Trade impact, quality coffee production	Quillabamba, 19/02/2018
Don Felix	Coffee producer	Independet coffee production, comercial challenges, cooperative vs independent production, quality coffee production	Quillabamba, 19/02/2018
Doña Elena	Coffee producer	Challenges in coffee production	Santa María, 20/02/2018
Hilario Perez	Coffee producer, founder COCLA	Social movements, rural development, quality coffee production, cooperatives, coffee production techniques, impact Fair Trade	Huyro, 21/02/2018
David Mora	COCLA tours operation manager	Rural development, coffee production, cooperative involvement, consumer awareness, corruption	Cusco, 26/02/2018



## **List of images**

Image 1: Price of green coffee over the years

Image 2: Division of poverty in Peru

Image 3: Value distribution of coffee from crop to cup

Image 4: Average export price according to export category (multinational, business, and producer organization)

Image 5: Where a Coffee Dollar goes

Image 6: Fair Trade coffee journey

Image 7: Links in the coffee trade. Fair Trade (dotted lines) vs Free Trade (regular lines)