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Global linkages and local impacts.
Analyzing the Fair Trade coffee value chain with a focus on power structures in Peru

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**Abstract**

The master's thesis examines power relations in the Fair Trade coffee value chain in Peru. The thesis elaborates different types of Fair Trade coffee existing in Peru and analyzes their impacts on producers and cooperatives. Territorial and network embeddedness are studied to understand economic integration as well as participation, representation and inclusion in regulatory process and development of the label. The Global Production Network (GPN) approach builds the theoretical background since it considers non-firm actors, power aspects and forms of upgrading. Drawing on earlier attempts to analyze asymmetries in social and economic development as well as governance, qualitative research in three regions of Northern Peru builds the main part of the study. Semi-structured interviews with Peruvian smallholder farmers, workers, and other actors along the Fair Trade coffee value chain allow an in-depth understanding of power structures and governance in Fair Trade and in the coffee market in general. They also enable a more nuanced analysis of social and economic development influenced by participation in Fair Trade coffee value chains and those that are driven by other factors. This is complemented by a qualitative document analysis of Fairtrade, trade and price data and fills a gap in previous research. The results provide a better understanding of effects of Fair Trade in Peru: a broad Fairtrade certification leads to price stability and spillover effects in the region since it generates higher prices for both certified and non-certified producers. The international context of the political economy and the behavior of firms, especially regarding price setting, enable or limit sustainable and comprehensive impacts of Fair Trade. Different types of Fair Trade coffee value chains and the context of cooperatives are a decisive factor in that respect. Contacts to other cooperatives, length of affiliation in Fair Trade network and loyalty of cooperative stakeholders have a great influence on the performance of the cooperative and its impacts on associates. Cooperatives play an essential role in improving living conditions of producers, especially regarding social and economic upgrading. Fair Trade enhances the successful action of cooperatives, but it is not a sufficient condition. The findings outline that some types of value chains reflect the vision of the social movement. Despite being in the field of tension between market-orientation and social protection against it, they represent an alternative to conventional market structures and have a transformative power. Fair Trade allows an enormous improvement in traceability and transparency in the coffee supply chain. However, over-certification massively constrains the transformative force and causes the Fair Trade coffee market to be buyer-driven. Consequently, Fair Trade can be a tool that favors sustainable and equitable trade relationships, but to meet the self-imposed targets, additional factors are required. The functioning of cooperatives seems to be one of the most decisive elements, along with, at macro level, the international context of the political economy and the role of firm actors.

**Kurzfassung**
Die Masterarbeit untersucht die Machtverhältnisse in der Wertschöpfungskette von fair gehandeltem Kaffee in Peru. In der Arbeit werden verschiedene Arten von Fair-Trade-Kaffee in Peru untersucht und ihre Auswirkungen Produzent*innen und Kooperativen analysiert. Um die wirtschaftliche Integration sowie die Beteiligung, Vertretung und Einbeziehung in den Regulierungsprozess sowie die Entwicklung des Siegels zu verstehen, werden die territoriale Einbettung ebenso wie die Einbindung in Netzwerke untersucht. Der Ansatz der Globalen Produktionsnetzwerke (GPN) bildet den theoretischen Hintergrund, da er nicht-unternehmerische Akteur*innen, Machtaspekte und Formen der sozialen und ökonomischen Aufwertung berücksichtigt. Aufbauend auf früheren Versuchen, Asymmetrien in der sozialen und wirtschaftlichen Entwicklung sowie in der Steuerung zu analysieren, bildet qualitative Forschung in drei Regionen im Norden Perus den Hauptteil der Studie. Halbstrukturierte Interviews mit peruanischen Kleinbäuer*innen, Arbeiter*innen und anderen Akteur*innen entlang der Wertschöpfungskette des fair gehandelten Kaffees ermöglichen ein vertieftes Verständnis der Machtstrukturen und Kontrolle sowohl im Fairen Handel als auch auf dem Kaffeemarkt im Allgemeinen. Sie ermöglichen eine differenziertere Analyse der sozialen und wirtschaftlichen Entwicklungen, die durch den Fairen Handel beeinflusst wird, und solchen, die durch andere Faktoren bedingt ist. Ergänzt wird dies durch eine qualitative Dokumentenanalyse von Fairtrade-, Handels- und Preisdaten und schließt eine Lücke in der bisherigen Forschung. Die Ergebnisse ermöglichen ein besseres Verständnis der Auswirkungen des Fairen Handels in Peru: Eine breite Fairtrade-Zertifizierung führt zu Preisstabilität und Ausstrahlungseffekten in der Region, da sie sowohl für zertifizierte als auch für nicht zertifizierte Erzeuger höhere Preise bewirkt. Der internationale Kontext der politischen Ökonomie und das Verhalten der Unternehmen, insbesondere bei der Preisgestaltung, ermöglichen oder begrenzen nachhaltige und umfassende Auswirkungen des Fairen Handels. Unterschiedliche Arten von Fair-Trade-Kaffeewertschöpfungsketten und der Kontext der Kooperativen sind in dieser Hinsicht ein entscheidender Faktor. Kontakte zu anderen Kooperativen, die Dauer der Zugehörigkeit zum Fair-Trade-Netzwerk und die Loyalität der Mitglieder zu ihrer Kooperative haben einen großen Einfluss auf das Funktionieren der Kooperative und ihre Auswirkungen auf die Mitglieder. Die Kooperativen spielen eine wesentliche Rolle bei der Verbesserung der Lebensbedingungen der Erzeuger*innen, insbesondere im Hinblick auf die soziale und wirtschaftliche Aufwertung. Der Faire Handel begünstigt das erfolgreiche Handeln von Genossenschaften, stellt jedoch keine hinreichende Bedingung dar. Die Ergebnisse verdeutlichen, dass einige Arten von Fair-Trade-Kaffeewertschöpfungsketten die Vision der sozialen Bewegung widerspiegeln. Obwohl der Faire Handel im Spannungsfeld zwischen Marktorientierung und sozialer Absicherung steht, stellt er eine Alternative zu herkömmlichen Marktstrukturen dar und hat eine transformative Kraft. Fairer Handel führt zu einer enorm verbesserten Rückverfolgbarkeit und Transparenz in der Lieferkette. Die Überzertifizierung schränkt diese jedoch massiv ein und führt dazu, dass der Fair-Trade-Kaffeemarkt käufergesteuert ist. Folglich kann der Faire Handel ein Instrument sein, das nachhaltige und gerechte Handelsbeziehungen begünstigt. Um die selbstgesteckten Ziele zu erreichen, sind jedoch weitere Faktoren erforderlich. Die Funktionsweise der Genossenschaften scheint dafür einer der entscheidenden Aspekte zu sein, ebenso wie der internationale Kontext der politischen Ökonomie und die Rolle der Unternehmen auf der Makroebene.

*There is an indissoluble tension between capitalism and democracy; indeed, with both, two opposing principles of social integration compete for primacy.*

*Zwischen Kapitalismus und Demokratie besteht ein unauflösliches Spannungsverhältnis, mit beiden konkurrieren nämlich zwei entgegengesetzte Prinzipien der gesellschaftlichen Integration um den Vorrang.*

Jürgen Habermas, 1981, p. 520

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## List of Abbreviations

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|---|---|
| CLAC | Latin American and Caribbean Coordinating Committee of Fair Trade Producers and Workers (La Coordinadora Latinoamericana y del Caribe de Pequeños*as Productores*as y Trabajadores*as de Comercio Justo |
| EU | European Union |
| FAO | Food and Agriculture Organization of the United Nations |
| FT | Fairtrade (certified) |
| FLO | Fairtrade Labelling Organization (now Fairtrade International) |
| FLOCERT | Fairtrade's certification Organization |
| FOB | Free On Board |
| FTO | Fairtrade Organic (certified) |
| ICA | International Coffee Agreement |
| ICO | International Coffee Organization |
| ITC | International Trade Center |
| IFOAM | International Federation of Organic Agriculture Movements |
| GCC | Global Commodity Chain |
| GPN | Global Production Network |
| GVC | Global Value Chain |
| lb | One pound of coffee which is equivalent to 453.59 grams |
| MINAGRI | Ministry of Agriculture Peru |
| NGO | Non-governmental organization |
| OECD | Organization for Economic Cooperation and Development |
| TNC | Transnational Corporation |
| UN | United Nations |
| UNDP | United Nations Development Program |
| UNCTAD | United Nations Conference on Trade and Development |
| VSS | Voluntary Sustainability Standard |

## 1. Introduction

What is behind your cup of coffee? International economics, post-colonial economic development and a lot of processes and impacts on people and environment. After oil, coffee is the most traded commodity in the world and clearly represents the structures of international commodity chains and entails the most pressing problems in the world, including social inequality, biodiversity conservation, and environmental change (Tucker 2017). While consumers are located largely in the Global North, production is carried out mostly by smallholders in Global South[1] in former European colonies who are exposed to price volatility and other social and environmental issues. 25 million households generate direct income and employment from coffee production (Gesellschaft für Internationale Zusammenarbeit 2023). The coffee industry underwent structural changes, which increased major threads for actors at the very beginning of the global value chain: Smallholder farmers face price volatility and exposure to risks which makes them particularly vulnerable (Newman 2009: 541; Staritz/Tröster/Küblböck 2015). Transnational corporations (TNC) have gained control over markets which reduces the possibility of better prices for producers. Inequities in global markets contributed to the development of alternative trade agreements, systems for sustainability standards to take responsibility for the impacts of corporate activities (Tucker 2017: 126). Most of them are voluntary and, moreover, often sector- and problem-specific and not legally binding in each case. Underlying them all, there are international normative frameworks that set minimum standards and principles. These are primarily the United Nations Universal Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises (Scherf et al. 2019: 3). They are also not legally binding, but influence and constitute international law. One of these sustainability standards is Fairtrade which begins with prices.

Influenced by world system theory and dependency theory[2], the idea emerged in the 1960s and 70s to make trade fairer, to advance economic development, and to integrate the Global South into international trade (Tucker 2017: 128). After Mexican coffee producers initiated the Fair Trade movement due to low coffee prices, non-profit importers, non-

[1] Global North and Global South is seen as a relational concept, increasingly recognized as demeaning after the collapse of the Soviet Union and the First/Second/Third World divisions, thus seeking to overcome these prevailing but outdated classifications. Typically, the term Global South is used to refer to countries facing social, political, and economic challenges - for example, poverty, environmental degradation, human and civil rights violations, ethnic and regional conflicts, mass displacement of refugees, hunger, and disease. Most of the countries included are in the Southern Hemisphere, but some are in the Northern Hemisphere, and not all countries in the Southern Hemisphere are part of the Global South (e.g., Australia and New Zealand) (Mogambi Ming'ate (2015): 8).

[2] School that opposes modernization theories and criticizes unequal exchange relations and global dependencies. Central representatives are, among others, Immanuel Wallerstein and André Gunder Frank.

governmental organizations (NGOs) and church groups started charity trading: they imported a few products directly to sell them at sporadic events or church services (Tucker 2017: 362f). In 1988, a Dutch NGO created a seal for coffee to guarantee that it came directly from democratically constituted smallholder organizations at a price that covered their entire production costs (Fairtrade Deutschland 2021). The aim was to demonstrate the compatibility of Fair Trade with the free market and appealing to a broader group of consumers (Tucker 2017: 131-133). Later, Fair Trade products were also offered in supermarkets and in 1992, Fairtrade International was founded as a unified certification label by different NGOs and charity organizations (Fairtrade Deutschland 2021). It became the globally responsible umbrella organization and has developed an overall Fair Trade strategy which sets standards.

The Fairtrade Labelling Organization (FLO) developed clear criteria that include social, environmental, and economic standards. Since Fair Trade is a market-based instrument, economic standards are the most important and at the same time the ones that differentiate Fairtrade from other campaigns and movements. Fairtrade sets a minimum price for products that are normally subject to price fluctuations on the world market, making long-term planning and some income security for producers impossible (FLOCERT 2021). In addition, the Fairtrade premium is an extra that is paid to small producers or workers and which is used for projects they have agreed upon. Further, social and environmental criteria are intended to ensure an empowerment of farmers and workers to face a range of economic, environmental and social challenges. Collectives play a central role to pool resources, share knowledge, and become a stronger business (Fairtrade International 2021).

What is meant by "Fair Trade" changed over the decades. Strong dynamics of change in international trade led to strong growth and market expansion. Today, there are different types of Fair Trade, but all of them share the concern to empower small producers, to support them to get access to the world market and to guarantee minimum prices and a premium (Kister 2019: 178). "Fair Trade" as a social trade movement is thus to be distinguished from "Fairtrade", the umbrella organization and seal. In 2021, there were 1930 certified producer organizations registered by Fairtrade, most of which, 281, were registered in Peru (Fairtrade International 2022). In terms of products, by far the most producers were involved in coffee production, 838,116 in 2020 (Fairtrade International 2021). Due to its enormous size, Fairtrade has become very standardized and technical, and audits are carried out in four-year intervals by the independent body FLOCERT, Fairtrade's certification organization, to ensure the standards described (FLOCERT 2021; Werner 2021: 322-324). The metrics (profits, producer organizations, premiums) can massively improve the lives of producers when produced under Fair Trade conditions. Fairtrade as a market-based instrument directly influences prices and guarantees minimum prices. It serves as an instrument for accessing international markets (Tucker 2017: 113-115). Fairtrade offers an alternative and improvement of the economic situation since producers get the minimum price. Since derivative market price fluctuates a lot and often falls below production costs, this means security and is like an insurance (International Coffee Organization 2022; Ndongo and Leye 2014: 97).  This in turn can have an impact on the economic and social situation of producers and their decisions because they can plan with it (Cramer et al. 2017: 851).

At the same time, however, Fairtrade remains within the system structures: It is profit-driven and embedded in a highly competitive world market, which why is why its benefits have been discussed controversially (Tucker 2017: 113-115; Cramer et al. 2017; Cramer et al. 2014). The global food system is shaped by financialization and power inequalities (Staritz/Tröster/Küblböck 2015). Financial markets have become a mode of accumulation for large transnational players and there are different forms of (firm) governance (Gibbon et al. 2008). Dynamics of change in conventional trade can be observed in Fair Trade in a similar way which is described as “supermarketization” by Werner (Werner 2021: 322-324). To give an example, FLOCERT started to certify plantations which are a product of colonial times to reach mainstream markets through mainstream marketing techniques (Davenpoort and Low 2012: 330). It is important to consider the economic contradiction inherent in Fair Trade in general. Fairtrade's goal is to bring sustainability issues into the mainstream, and it was meant to be a simplification of complexity and a link between production and consumption. At the same time, this means that there is a constant tension between market orientation and social protection against it (Herman 2019a: 334). Fairtrade has managed to become the "world's best-known ethical brand" (Blowfield and Dolan 2010: 148), but it is still dependent on the very companies it seeks to regulate. However, contractual deals, market access, pre-financing conditions, and climatic and political conditions that impact agricultural production are also still important for analysis (Sirdey and Lallau 2020: 169).

Fair Trade has been integrated to the mass market since 2000s. Supermarkets represent lead firms here that dictate quality, volumes, and delivery time why Kister (2019) and Werner (2021) describe this form of governance as captive (Kister 2019: 243; Werner 2021: 325). Different types of Fair Trade even compete.  Möckel portrays the history of Fair Trade as an ambivalence of market critique and market integration (Möckel 2016: 337).

The thesis wants to analyze if the conventionalization of Fair Trade value chains lead to unfair trading practices and a turn away from Fair Trade's origins and also Fairtrade International's principles.[3] Welfare improving effects will be taken into account as well as effects on skills and knowledge, quality management, input use and productivity, benefits for cooperatives, bargaining power withing the value chain and environmental effects. Thus, this thesis analyzes different types of Fair Trade coffee and resulting impacts on stakeholders at the beginning of the Fair Trade coffee value chain.

In this regard, it is of great importance to take a look at existing power relations in Fair Trade and the different types of it. Power relations are at the heart of world systems theory, which influenced the Fair Trade movement at its very beginning. While Fair Trade offers a real alternative within the capitalist market system, at the same time, it is part of the system of capital accumulation. In this context, focusing on the value chain of Fairtrade certified coffee from Peru, this master's thesis aims at answering the following questions:

1) **What different types of Fair Trade coffee do exist in Peru and what are their livelihood impacts?**

2) **How is Fair Trade used by different types of farmers and cooperatives particularly related to size and region in Peru to remain in and benefit from their integration in the world market?**

3) **Is Fair Trade an alternative which has the power to transform the market?**

The thesis builds on the Global Production Network approach (GPN) among the several branches of chain and network literature since it includes the consideration of non-firm actors, power aspects and analyzes upgrading strategies (economic and social upgrading) (Gereffi 1994: 215, Bair 2005, Barrientos et al. 2011: 324). The theoretical framework is complemented by Jutta Kister's typification of different value chains in Fair Trade. She identifies four different types which differ in terms of actors and their position in the value chain as well as their sales volumes (Kister 2019: 178-180). The aim of the thesis is to elaborate different types of Fair Trade existing in Peru and to assess governance and power relations and related livelihood upgrading outcomes at the vertical and horizontal level for the four types of Fair Trade.

[3] The term Fair Trade refers to the overall movement, while Fairtrade (International) refers specifically to the umbrella organization. Fairtrade Labelling Organization (FLO) represents its certification and labelling system. In 2004, due to continuous growth, FLO (now Fairtrade International) and its certification entity FLO-CERT split into two entities (Tucker 2017: 133).

Methodologically, existing literature with relevant trade balances and statistics have been evaluated and analyzed. Furthermore, a qualitative content analysis of key documents on Fairtrade (see Fairtrade International (2021b) was conducted. 19 semi-structured interviews complement existing data and literature and build the main empirical part of the study and are crucial to address the research questions. These interviews include associates of cooperatives, technical staff of cooperatives, managing directors of cooperatives, a representative of CLAC[4] and (specialty) coffee trader/importer. The cooperatives are of different size, location, position in the (Fair Trade) coffee market, but it should be noted that the sample is still limited in its representativeness. All interviews were systematically analyzed by using content structuring qualitative content analysis.

The thesis concludes that Fair Trade has no negative impact on smallholder coffee producers and cooperatives in Peru. The positive effects can be distinguished as direct and indirect effects, which include economic and social upgrading as well as ecosystem services. The results demonstrate that broad Fairtrade certification leads to general price stability and stimulates higher pricing not only for certified producers, so spillover effects can be observed. For the intensity of the effects, the international context of the political economy and the behavior of firms, especially regarding price setting, are important. It is a crucial factor for the share of production that is actually sold at the Fairtrade price. Since none of the interviewed stakeholders sells 100 percent of the Fairtrade certified coffee at the corresponding price, the effects of Fair Trade are massively limited. This can be seen as a deficit of Fair Trade on the macro level and a failure to meet the self-set targets. Other influential factors for impact of Fair Trade are the types of Fair Trade value chain cooperatives have (e.g. long-term and direct, possibly with pre-financing and planning security, or a purely contractual relationship focused on core transaction in which producers are only suppliers of raw material). Due to over-certification, there is a saturation of the Fair Trade coffee market. Here, the context of the cooperative gains in significance, namely the territorial and network embeddedness. Contacts to other cooperatives, length of affiliation in Fair Trade network and loyalty of cooperative stakeholders have a great influence on the performance of the cooperative and its impacts on associates. Generally, results show that cooperatives play an essential role in improving living conditions of producers, especially regarding social and economic upgrading, and Fair Trade enhances the successful action of cooperatives. Fair Trade

[4] CLAC is the abbreviation for “La Coordinadora Latinoamericana y del Caribe de Pequeños*as Productores*as y Trabajadores*as de Comercio Justo” (The Latin American and Caribbean Coordinating Committee of Fair Trade Producers and Workers)

represents an alternative to conventional market structures, but only some types of value chains contain transformative power to transform the market.

The thesis is organized as follows. In the following section, State of Research on Global Production Networks is illustrated and applied to Fair Trade and coffee. After this, methodological procedure is presented. The coffee sector and Fair-Trade principles are presented generally. Then, the Peruvian coffee sector and background of coffee cooperatives and their Fairtrade certification is highlighted. In the sixth section, Fair Trade coffee value chains in Peru are analyzed. Advantages for different stakeholders are presented, hierarchies and power structures in the coffee value chain and their effects, opportunities, limitations, and problems on coffee producers in Peru are considered.  Similarities and differences to the conventional, organic and specialty coffee markets are described before the conclusion answers research questions and gives an outlook.

# 2. Global Production Networks and Fair Trade

## 2.1 Global Value Chain and Global Production Network approaches

Within their research on the global world system, Terrence Hopkins and Immanuel Wallerstein introduced the term “commodity chain” already in the late 1970s (Hopkins and Wallerstein 1977: 111). A commodity chain is “a network of labor and production processes that result in a finished commodity” (Hopkins and Wallerstein 1986: 159). Actors can gain income at each link in the chain and the whole income from the commodity is distributed across each actor in the chain, and relative power in the market chain influences how much income is apportioned. The world system approach sets the basis for later upcoming chain and network approaches since all use the concepts to analyze international division of labor that defines world economy (Bair 2005: 155). It focused on the reconstruction of industries and the capitalist world economy that is European-centered and emerged during the long sixteenth century (Bair 2015: 156).

Gary Gereffi and colleagues shaped the Global Commodity Chain (GCC) framework and later the more inclusive and sociological Global Value Chain (GVC) approach (Bair 2015: 154). Gerrefi's work is in the broadest sense of dependency theory tradition and with his chain approach, he operationalizes the world system theory categories (core, semi periphery, periphery) but breaks with them (Ponte et al. 2019: 1). World-system theorists focus on commodity chains as structural influence for the hierarchical world-system considering social reproduction of human labor in a historical way. GCC researchers focus on “how participation in commodity chains can facilitate industrial upgrading for developing country exporters” (Bair 2015: 156) nowadays. Both provide a way to understand globalization as international division of labor that goes beyond the concept of national economies. As Bair states, GCC does not address the question “of winners and losers in todays’ global economy” (Bair 2005: 154) since it highlights firm-level competitiveness.

According to Gereffi et al. (2005) it is important to look at lead firm actors and the concept of governance (Gereffi et al. 2005: 82). Governance is defined as the authority and power relationships that determine how financial, material, and human resources are allocated and flow within a chain since they are not coordinated just through market exchange (Gereffi 1994: 215). Through the concept of governance, the international division of labor and its economic and social consequences can be assessed (Henderson et al. 2002: 440). The shift from “commodity” to “value” was done because of its limiting connotations and the focus on value creation and value capture (Gereffi et al. 2005: 82). Gereffi considers a social embeddedness of GVC in an environment of actors not directly involved in the global production network like organizations, unions, consumer groups etc. and the state that facilitates or inhibits economic actions and development. Bair calls it an affinity towards neoliberal conceptions of development which is inherent to the GVC perspective. The role of governments gets little attention contrary to the role of firms as capitalism organizing agents, facilitators of upgrading and market-driven global integration (Bair 2015: 174).

Apart from the focus on the firm, Henderson et al. (2002) criticize that the multidimensionality which lies is the social processes of production of goods and services is not reflected in the chain metaphor. They therefor propose a network concept (Henderson et al. 2002: 442). Their **Global Production Network (GPN) approach** builds the main theoretical background of this thesis. It allows a focus on power structures since it emphasizes economic integration and the analysis of asymmetries in economic and social development (Henderson et al. 2002: 436). As Henderson et al. (2002) state, research on economic development has been state-centric although world system theory moved beyond these boundaries (Henderson et al. 2002: 437).

The GPN approach is capable to acknowledge complex network structures of production. They conduct an analytical conceptualization which reflects the complexity of global division of labor. The multi-dimensional analysis of the agents participating in production that are liable to certain structures, pre-conditions and most importantly power can explain different economic and social developments. It allows a better understanding of producer-consumer relations, dynamics of power and knowledges between actors and institutions. The key focus is on firms and particularly lead firms and their governance and asymmetric inter-firm relations, but also role of states and non-firm actors in that.

Ernst and Kim (2001) conceive a GPN as a combination of “dispersion of the value chain across firm and national boundaries, with a parallel process of integration of hierarchical layer of network participants” (Ernst and Kim 2001: 1). Building on the work of Gereffi and his collaborators, Henderson et al. conceptualize more generally applicable GPN approach of Ernst (Henderson et al. 2002: 444). In its discourse it prefers not only the term “network” instead of “chain” but also “production” instead of “commodity” because it emphasizes “social processes involved in producing goods and services and reproducing knowledge, capital and labor power” (Henderson et al. 2002: 444).

According to the authors, “commodity” fixes the process of production in time and space and includes connotation of standardized products (ibid.). It investigates territorial and network embeddedness which is crucial for the aim of this thesis: territorial embeddedness is a key element in regional economic growth and the degree of network embeddedness determines the structure and evolution of a GPN (Henderson et al. 2002: 453). The GPN approach has also been used for agriculture sectors, including to analyze Fair Trade. It is characterized by the recognition of complexity, geographic variability of producer-consumer relationships and, above all, the circulation of knowledge that is no longer unidirectional. Production processes are influenced by different agents from different locations which is acknowledged in both Fair Trade and GPN approaches (Henderson et al. 2002: 445).

In the literature on Global Commodity Chains (GVC) and Global Production Networks (GPN), upgrading processes are examined, but the analysis does not always go very deep (Barrientos et al. 2011: 324-326.). Originally, most of the literature on production chains and networks assumed that economic upgrading, i.e., the transition to higher value-added production steps, would automatically lead to "social upgrading," i.e., better wages and working conditions for workers (Barrientos et al. 2011: 336). Empirically, this has not proven true, and there have been several studies in the past that economic and social upgrading are contested processes (Selwyn 2013: 76). A key tool for comprehending, analyzing, and advancing development in the Global South is the concept of upgrading in Global Production Networks and it is a fundamental factor for the aims of Fair Trade (see section 6.2.2 and 6.2.3). This thesis addresses the analysis of power structures and governance in the Fair-Trade coffee value chain. Therefore, Gibbon’s application on tropical soft commodity production networks is presented in the following section.

## 2.2 Specificities of tropical soft commodity production networks

In his general framework analyzing global commodity chains (GCCs), Gereffi outlines the importance of input/output structures, geography, governance, and institutional structures, especially governance by lead agents (Gereffi 1994). Gibbon (2001) applies the GVC and GPN approach on tropical soft commodities and his discussion for livelihood upgrading. He highlights the dichotomy between producer-driven and buyer-driven chains which become apparent (Gibbon 2001: 60). Furthermore, he describes the dichotomy between tropical countries as producers and mainly industrialized countries as consumers (Gibbon 2001: 61).

Tropical soft commodities like coffee, tobacco, cotton, sugar, rubber, tea and cocoa account for more than half of total exports of some countries in the Global South (Gibbon 2001: 60). Especially low- and middle-income countries are considered to be commodity dependent since 60% of their exports are primary commodities (UNCTAD 2019). This again is linked to a weak performance in UNDP’s Human Development Index (Nkurunziza et al. 2017).

Since 1990s, there has been a restructuring of soft commodity chains. Producer country markets face liberalization since former state monopolies have been commercialized, privatized, or liquidated (Gibbon 2001: 64). Through liberalization, governments are unable to revive international commodity agreements because they cannot control quality or predict supply of crops (Gibbon 2001: 64). This in turn increases price volatility on domestic an international market. International traders faced the challenge of non-compliance of contracts and a decrease of margins. Because of this, there was a short-term strengthening of the bargaining position of upstream actors, but traders reacted fast: They expanded their own production and started to grow coffee, for example (Gibbon 2001: 65).

Gibbon (2001) summarizes fundamental changes in governance and institutional structures that shape soft commodity markets as following: since states play a minor role, international coordination between producing countries on the horizontal axis was displaced by direct vertical relations between buyers and suppliers (Gibbon 2001: 66). Economies of scale play a more important role because a universal quality is demanded in high volumes. That is why the most vulnerable producers’ position is weakened. Commodity future markets are financialized and not directly related to the physical market.  This underlines the very little regulated and competitive market which makes upgrading impossible for most of the producers who lack price-risk management additionally (Gibbon 2001: 66; Tröster/Staritz 2015: 18). Markets are trader-driven and power is distributed very unevenly in the production network. On the top of that, Gibbon stresses the importance of institutional provision of common good services to smallholders as bad infrastructure restricts upgrading processes (Gibbon 2001: 68). The interviews conducted show that Fair Trade can positively influence upgrading, especially functional and interchain upgrading since some cooperatives opened coffee shops and process and sell coffees under their own brand name (see section 6.2.2 and

6.2.3). It is important to note that concepts of upgrading cannot be applied exactly to tropical soft commodities because they are often very related and not easy to differentiate.

To improve smallholders' position, to strengthen communities and to integrate value chains, Fair Trade provides a different approach within soft commodity GPNs which is explained in the following section.

## 2.3 Fair Trade from a GPN perspective

It is inherent to both Fair Trade and GPN that economic relations are social processes. GPN perspective allows "insights into the complexity of commercial-social inter-linkages and tensions" (Barrientos 2013: 45). Multidimensional power relations of Fair Trade can be analyzed through the GPN approach (Herman 2019a). As power is contested through Fair Trade it addresses a main analytical aspect of GPN, as well as creation of value and upgrading processes which is a crucial goal for Fair Trade (Barrientos et al. 2011).

> *That so many farmers and workers are disempowered by a global trade system which enriches the few at the expense of the many doesn't mean trade itself is a bad thing. Trade can—and should—be used as a vital tool and catalyst to help close the gaps that exist across society. Fairer trade can create sustainable change by narrowing the gap between rich and poor, by creating opportunities for social and economic change, and by fostering respect for human rights and the world's precious natural resources.*
>
> Marike de Peña, Chair of the Board, Fairtrade International (Fairtrade International 2016)

The label Fairtrade emerged out of a social movement and to understand its complexity and sometimes opposing goals and strategies it is important to know its history and discourses that shaped it. The Fair Trade movement originated after World War II in order to transform the global economic system and to increase equality and respect for human rights (Tucker 2017: 128). It roots in the Bretton Woods Accord 1944 which supported prices in order to stabilize economies of developing countries. Together with the Havana Charter it fostered import-substitution industrialization (ISI) which led to expansion of industrial sectors, more employment and less poverty (Fridell 2016). As these measures existed at the macro level, some direct trade links emerged in order to integrate the Global South, in other words marginalized populations and producers, into international trade. This was influenced by world system theory and dependency theory and finally gave rise to the emergence of Fair Trade in the 1960s and 70s with the goal to make trade fairer, to enhance economic development to support the Global South in their struggle against imperialism and ongoing neo-liberalization (Tucker 2017: 128). The first products were sold in so-called "Third World stores" and were also an expression of an alternative lifestyle. Several labels, first for coffee, emerged, to guarantee that it came directly from democratically constituted smallholder organizations at a prize that covered their entire production costs (Fairtrade Deutschland 2021). The aim was to demonstrate the compatibility of Fair Trade with the free market and appealing to a broader group of consumers (Tucker 2017: 131-134; Möckel 2016: 351). Later, Fair Trade products were also offered in supermarkets and in 1992, Fairtrade International was founded as a unified certification label by different NGOs and charity organizations (Fairtrade Deutschland 2021). It became the globally responsible umbrella organization and it has developed an overall Fair Trade strategy which sets standards. Since Fairtrade is a market-based instrument, economic standards are the most important and at the same time the ones that differentiate Fairtrade from other campaigns and movements (see section 4.4). Focusing on “trade, not aid”, the Fair-Trade approach is differing from that of development cooperation actors. Furthermore, it fits within neoliberal philosophy and into the debate about free trade versus regulated trade (Tucker 2017: 132).

Seen from a Gramscian perspective, Fair Trade involves counter-hegemonic ideas that have the potential to weaken global economic hegemony. However, mainstreaming of Fair Trade goods weakens the transformative potential: After the involvement of Transnational Corporations (TNC), the market for Fair Trade expanded. On the one hand, Fair Trade producers have been able to sell more of their products and gain higher income (Tucker 2017: 136). On the other hand, their overall goal is to make profits and to keep costs as low as possible. This includes, for example, buying small quantities of Fair Trade products and mixing them into products at a minimum value in order to be able to sell them with the label (Tucker 2017: 135). TNC Fair Trade products now compete with the products of 100 percent Fair Trade businesses, which have fewer recourses for advertising but a much greater commitment to support social and environmental sustainability. Thus, competition has increased and “the emphasis has shifted from building partnerships for equitable trade to an emphasis on using certifications to meet consumer demands and increase sales” (Tucker 2017: 134). Tucker calls this practice *fair-washing*: it presents itself as committed to Fair Trade but it does not adopt to Fair Trade principles in its business habits but Fair Trade rather depends on the mechanisms of the same markets that generates inequities Fair Trade aims to transform (Tucker 2017: 135). Fairtrade stands between its adaptation to highly competitive and irregulated markets and the internal pressure to become more inclusive, participatory and democratic (Taylor and Raynolds 2005: 201). The GPN approach lends itself to the analysis of governance and provides insights into how it can also lead to the exclusion of powerful actors and remain a niche market (Taylor and Raynolds 2005: 201). The question is if new certifications dilute Fair Trade principles or if they strengthen the movement by attracting more businesses to join (Tucker 2017: 141).

### 2.3.1 Hierarchies on vertical and horizontal axes in production networks

Marslev et al. (2022) re-conceptualize social upgrading in production networks: according to them, it is shaped through transnational power relations (vertical axis) and local political economy contexts and labor control regimes (horizontal axis). They underline the importance of capital-labor and state-society relations and bring workers and labor back into the discussions as active agents in global production. What is more, they make particularly clear that the state is a manager and facilitator of economic development and that the state somehow reflects the balance of power (Marslev et al. 2022: 833). In Fair Trade, different hierarchies can be identified that facilitates or restricts upgrading of producers: There is a North-South hierarchy inherent in Fair Trade on the vertical axis: While consumers are located largely in the Global North, production is carried out mostly by smallholders in Global South who are exposed to price volatility and other social and environmental issues. Traders, roasters and supermarkets are part of the vertical hierarchy and control coffee value chains. They gain even more power as an outcome of financialization and the information imbalance that results from scaling up. In this respect, states also play a role, as they not only prevent this imbalance, but create an environment that facilitates it. Besides, a hierarchy regarding the relationship between producers and Fairtrade as an institution is also part of a vertical axis.

While Alterative Trade Organizations (such as German GEPA or Austrian EZA) do change something about trade and especially about power structures through direct and long-term trade relationships. But the commodity chain design itself does not change when supermarket chains expand their Fair Trade offer and buy certified products without being in direct contact with their producers or informing about it on the product packaging. In this respect, there is also talk of fair washing, as the multitude of different labels suggests that the underlying contradiction between profit interests and justice in trade is being resolved (Werner 2021: 330). This in no way leads to more transparency, but leaves consumers partially overwhelmed in their purchasing decisions. Michael Jonas (2021) analyzes this circumstance and describes it as taking responsibility for something for which one has no responsibility. Responsibility is moralized and the consumer voluntarily assumes responsibility by buying a Fairtrade product, while the asymmetrical relationship between producers and supermarkets is lost from view (Jonas 2021: 337). Assigning responsibility to end consumers would only distract from inherently unfair trade practices but would not fundamentally change them. Ndongo and Leye (2014) also criticize individualization, but in this case the shifting of risk and costs to producers (Ndongo and Leye 2014: 109). Talbot (2002) states that the structures of tropical commodity chains of coffee, cocoa and tea reinforce inequality internationally and helps persistence of North-South dimension (Talbot 2002: 701). This is also reflected in EU tariff regulations that support import of raw materials and low processed goods. Value adding activities like customer-oriented design, marketing and branding take place at the end of the chain place in the North. This is contrary to the original aim of Fair Trade to empower producers in the South (Kister 2019: 208).

On the one hand, workers and farmers are often portrayed as inhibited actors and passive victims in both GVC/GPN and Fair Trade as capital seeks cheap labor (Smith et al. 2002: 47). On the other hand, in the narrative and marketing of Fairtrade, the position of farmers and producers is very dominant. They are portrayed as independent actors that play an important local role making the land fertile. Profit comes second in this image. It is argued that this goes hand in hand with a general romanticization of agriculture and especially a female and indigenous expertise of a smallholder farm (Kunze 2017: 986). However, analyses of the global value chain approach show limited possibilities of upgrading in the value chain for female producers in agriculture (Cramer 1999: 144). Thus, romanticized agriculture in many cases also means little income, little education, and often exploitation because power is very unequally distributed (Neilson 2019: 297).

A hierarchy between different actors involved in labor process, e.g., female producers, employees, migrant workers can be seen on the horizontal axis (Davenport and Low 2012, Sutton 2013; see section 6.4). Raynolds (2017) criticizes that research on Fairtrade often focuses on small scale producers and oversees hired labour (Raynolds 2017: 1474). When small-scale producers have low income due to low derivative market prices, they own land and can practice subsistence farming. Hired workers do not have this option and they will also not receive a pension since their work is informal. Ndongo and Leye (2014) are right when they ask: "*If small producers are as poor as we are told, what of their employees?*" (Ndongo and Leye 2014: 94).

Further criticism on the horizontal axis is that Fairtrade tends to select groups that already have a certain degree of organization, and which does not include the most vulnerable ones regarding social and economic circumstances. Ndongo and Leye (2014) cite examples from West Africa where producer organizations have dropped out of Fairtrade certification again because they could not pay the fees for auditing for Fairtrade certification renewal because their sales were so low (Ndongo and Leye 2014: 116). This would mean that Fairtrade would not live up to its self-imposed goal of supporting the most marginalized to participate in the market (Ndongo and Leye 2014: 116; 132).

Another aspect on the horizontal axis are types of upgrading/downgrading in the political economy context: frosts in Brazil and therefore lack of coffee on the world market results in income loss and economic downgrading for Brazilian coffee producers. At the same time, it means an economic upgrading for Peruvian coffee producers who sell their coffee at a higher price due to higher derivative market price. When others struggle due to climatic reasons, local conflicts or tension, others are empowered because they can serve the high demand for the product. Even Fair Trade cannot break this vicious circle (Tucker 2017: 114).

### 2.3.2 Different types of Fair Trade

According to Kister (2019), there are four different types of Fair Trade (Kister 2019: 196ff). Normative elements as the reason for the economic transaction, the nature of the relationships at the nodes and the distinction between having power and exercising power are decisive for the types of power and governance (Kister 2019: 210).

Type A is characterized by a partnership chain with direct relation. The chain is reduced to key actors (production, import/sales and commercialization). This type of Fair Trade is carried out by enterprises that are positioned completely in Fair Trade and it is a high knowledge exchange, producers get information about market and can sell their higher quality products as well on other markets – many activities are carried out at place of production and leads to higher quality, effectivity, professionality, the value added by producers increases (Kister 2019: 192). Fair trade premium revenues are invested in processing facilities and village communities, or cooperatives increase production volume and make technical equipment and services (consulting, export effort) more effective and rewarding. This often gives rise to long-term personal relationships, joint projects that go beyond business transaction like preferential supply, long-term contract duration, pre-financing, minimum price and premium. Kister describes the motivation of key actors in the Global North as diverse: ecclesiastical-religious motivation, ethical-normative values, political convictions: strongly charged normatively, but can vary in individual expression (Kister 2019: 192).

Type B of Fair Trade value chains consist of supermarkets as buyers of finished products. This type expanded in the course of the market expansion. Food retailers established in the conventional market include goods from Fair Trade offer. This represents a buyer-driven form of coordination and control in which supermarkets indirectly influence the production chain.  Large retailers with high concentration of power in food market, health food stores and also organic supermarkets are stakeholders of this type. They are customer-oriented and put pressure on prices due to variety of supply. Key point of the chain is the position of importer and manufacturer which have to be of a certain minimum size to participate, since minimum quantity and constant quality is required and short-term changes in the purchase quantity must sometimes be coped with. That is why suppliers are interchangeable to a certain extent and a short-term change of contract terms is usual (Kister 2019: 193).

Supermarkets indirectly influence production chain as distribution actors pick up preferences of supermarkets and adapt products as best as possible to wishes of supermarkets, which in turn adapt them to customers. Motivation of supermarkets to sell Fair Trade products displays an improvement of image because customers are shown that supermarkets are willing to promote good working and production conditions. Fairtrade is a safe standard with high credibility. Kister (2019) analyzes that certification offers the possibility to externalize risks to control bodies for product groups that are scandal-prone and difficult to control due to non-transparent production conditions (Kister 2019: 195).

Type C is expressed by a manufacturer-controlled chain with anonymous trading relationship. A conventional manufacturer imports certified raw goods, defines their nature and processes final products (mostly highly processed products such as beverages incl. roasted coffee, chocolate bars, cookies, ice cream), which he then sells to supermarkets, retail, bulk consumers such as gastronomy. The chain configuration is same to processed conventional goods: Raw materials are only exchanged with certified ones. It is not necessary to establish a partnership since Fairtrade provides a list of certified producer groups that produce raw materials in the desired way. Thus, the transaction is purely commercial, certification is one quality attribute among others and used for marketing. The trading relationship is demand-driven and anonymous. In can happen only one time or can be repeated (Kister 2019: 197). Type C leads to more customer-oriented blended and composite products, and thus higher demand for some certified products like spices and sugar. Type C manufacturing companies are often brand leaders that incorporate certification into the marketing concept, e.g., large coffee roasters and juice manufacturer. Their marketing suggests social commitment, but relationship with producers is oriented to minimum requirements and focused on quality-oriented economic transaction, no personal, partnership-based relationships are established. Manufacturing companies have a variety of interesting activities (processing, brand management, marketing, product design) and can set specifications on price quantity and product quality from its central position. Producers only have the task of high-risk and economically less lucrative raw material production. The relationship to producers is anonymous and reduced to economic transaction and large power asymmetries occur especially if they are of different sizes and have different market power. Since type C emerged, however, larger production cooperatives and certified plantations (not for coffee) have been formed, which can respond to the requirements of larger manufacturing companies (Kister 2019: 198).

Type D is the most vertically integrated form. Here, in addition to type C, the retail trade is integrated. Only production of raw materials which is carried out by certified producers in the Global South, is not integrated, but import, processing, distribution, marketing, brand management and logistics are vertically integrated in the lead company. Wholesale and retail chains, including discounters, which produce goods with own brands with Fairtrade certification that are offered in the markets. Own brands represent cheaper alternatives to branded products and are subject to high price pressure. Only minimum criteria are fulfilled towards producers, they have no power and the relationship is purely contractual, economic and focused on core transaction. Activities can also be commissioned to subcontractors, control and product design are powerfully in the hands of the lead company which leads to great power asymmetry. Involvement in this type of chain guarantees the certified producer that minimum criteria are met, but does not lead to security or predictability.

Type D represents discrepancy due to commodification of Fair Trade from the normatively oriented idea of a social movement to the valorization by conventional globalized economy. It can be classified as a process of capture, hence imposing requirements and conditions. Economically lucrative activities are integrated while simple activities, risk, responsibility, and control are outsourced. Certification supports leading companies by outsourcing control functions as well as credibility, but even Fairtrade is exposed to the market power of the leading companies. They not only threaten the producers with exclusion but also replace Fairtrade certification by other certifications existing on the market, e.g. Rainforest, UTZ. Their criteria are less strict and more practicable for companies. This leads to the fact that the criteria are threatened with dilution. Minimum prices are also subject to price pressure in the negotiations, because the price set by Fairtrade must be enforceable against the strong buying companies (Kister 2019: 200).

D the most vertically integrated form. Here, in addition to type C, the retail trade is integrated. Only production of raw materials, which is carried out by certified producers in the Global South, is not integrated, but import, processing, distribution, marketing, brand management and logistics are vertically integrated in the lead company. Wholesale and retail chains, including discounters, which produce goods with own brands with Fairtrade certification that are offered in the markets. Own brands represent cheaper alternatives to branded products and are subject to high price pressure. Only minimum criteria are fulfilled towards producers, they have no power and the relationship is purely contractual, economic and focused on core transaction. Activities can also be commissioned to subcontractors, control and product design are powerfully in the hands of the lead company which leads to great power asymmetry. Involvement in this type of chain guarantees the certified producer that minimum criteria are met but does not lead to security or predictability.

The different types of Fair Trade differ in their extend of integration and governance power, hence importance of actors at nodes for controlling the chains. They also vary in size, positioning in the market and objective for economic transactions. Type A leaves more decision-making power to producers, B to D changes to a stronger demand-oriented form of governance, in type C and D decisions of producers do not go beyond their own sphere of activity. Companies that are anchored in conventional trade include certified products in their assortment based on a strategic decision. This has no impact on the general corporate strategy and therefore no impact on strongly asymmetric distribution of power between lead company and suppliers. Their relationship with Fairtrade certified producers does not show elements of a partnership, but a one-time transaction based on the minimum criteria: proof of certification of raw materials is a prerequisite for this and part of the requirements of the goods quality. Power asymmetries result mainly from differences between buyer companies and producer associations in terms of size, market power at its position, experience and professionalism. Producer associations that are already established on the market enter a transaction differently to those who have just entered the market. Moreover, it is more likely that type C and D is carried out with established and rather larger producer organizations to reduce the risk of breach of contract (see section 4.4).

The self-set goal of Fair Trade to open market access for disadvantaged small producers in the Global South and to enable them to sell produced goods at a "fair price" has to be analyzed together with power asymmetries in these Global Value Chains. Kister (2019) states that integration of powerful large companies in buyer positions cannot be used for the promotion of small-structured producer communities and that market access to the world market is only created by types A and B (Kister 2019: 203). Interviewees with cooperative managers disagree with that which will be further discussed in section 6.2 (Interviews 13; 14; 15). Nevertheless, it is important to summarize that only type A and parts of type B lead to partnership relations with personal and intensive exchange, knowledge exchange. Here, motivations are political-normative and value-oriented, church-religious. Type C, D and parts of B are anonymous relationships which comply with quality characteristics and price, but which externalize responsibilities and risks in the upstream of the chain (Kister 2019: 204). Regarding governance, it is evident that the actors from food retailing, manufacturing companies which are powerful on the conventional market also retain the buyer-controlled chain in Fair Trade transactions. This group of actors was able to significantly expand their sphere of power. They succeeded in vertically integrating economically interesting activities into their own operations increasing asymmetry of power in favor of the buyer companies. According to Kister, only Type A provides a intended non-exercise of power through certain positioning in the chain. Certification makes it possible to bring producers and interested manufacturers together and to support the emergence of new commercial relationships and to bypass long-established Fair-Trade actors (Kister 2019: 206).

The power structures within the Fair Trade system outlined in this section form the basis for the further discussion. First, however, the methodological approach will be discussed.

## 2.4 Synopsis

The following theoretical concepts are used in the study: Among the several branches of chain and network literature, this thesis uses the GPN approach as theoretical background to analyze the (Fair Trade) coffee value chain. It acknowledges complex network structures of production and allows a multidimensional analysis of stakeholders. It considers embeddedness and the environment of actors not directly involved in the global production network like organizations, unions, consumer groups etc. as well as the state that facilitates or inhibits economic actions and development. It allows a focus on power structures since it emphasizes economic integration and the analysis of asymmetries in economic and social development (Gereffi 1994: 215, Bair 2005, Barrientos et al. 2011: 324; Henderson et al. 2002: 436).

Gibbon (2001) applies the GVC and GPN approach on tropical soft commodities and discusses implications of producer-driven and buyer-driven production networks for livelihood upgrading. His concept facilitates an analysis in the broader context of rural development which is very suitable for the aim of this thesis. He also highlights the dichotomy between producer and consumer countries. Against the background of increasing financialization, producers are exposed to price volatility but lack of price-risk management which makes upgrading impossible and shows how unevenly the power is distributed (Gibbon 2001: 66).

The theoretical framework is complemented by Jutta Kister's typification of different value chains in Fair Trade. She identifies four different types which differ in terms of actors and their position in the value chain as well as their sales volumes (Kister 2019: 178-180). Her typification enables to classify purchase relations that range from long-term and direct, possibly with pre-financing and planning security, to a purely contractual relationship focused on core transaction in which producers are only suppliers of raw material.

## 3. Methodological procedure

For the assessment of the impacts of different types of the Fair Trade coffee value chain and the analysis of power structures, a mixed-methods strategy is used. The thesis uses quantitative data related to coffee prices and Peruvian coffee sector. Conducting a document analysis, Fairtrade’s key documents will be analyzed to get an insight in Fairtrade statement, development, marketing and change over the years focusing on coffee and Peru. This is completed by literature review of academic literature as well as studies conducted by NGOs to understand dynamics and governance along the (Fair Trade) coffee value chain. The quantitative data will be endorsed by qualitative data in form of semi-structured interviews with different actors along the Fair-Trade coffee value chain. The sample includes some long and well-established cooperatives in Northern Peru as well as some that have been founded recently. All of them sell at least 35 per cent of their coffee at Fair Trade conditions and are relatively successful on the (Fair Trade) market, which is important to mention, and which influence their generally positive attitude towards Fair Trade. This may have influenced their availability for an interview. The interviews represent the main empirical part of the study. The six-week research stay in Peru was supported by a short-term grant abroad (KWA) by University of Vienna.

## 3.1 Data on coffee and Fair Trade

For coffee farmers' incomes, prices are the key pillar. It is therefore important to analyze prices received by smallholders and cooperatives that derive from global prices. Data on coffee prices was provided by International Coffee Organization (ICO 2022/2023). Data on Peruvian coffee production as well as export prices of coffee exports were provided by the Peruvian coffee board and the Peruvian chamber of commerce of coffee and cocoa (Junta Nacional del Café 2022, Cámara de Café y Cacao 2023). A document analysis of Fairtrade documents provides data on Fair Trade certification and organizations in Peru is based on information provided by Fairtrade International and CLAC Peru (Fairtrade International 2022; CLAC 2022).

Since Fair Trade certification does not mean that organizations export at Fair Trade prices, there is no data on actual prices paid to associates of cooperatives and at which the cooperatives sell. Fair Trade premium plays an important or subordinate role for received prices, depending on the proportion of sales at Fair Trade prices. Thus, trade and price data cannot adequately explain the impacts of Fair Trade, governance, power structures, exposure to price risks and social and environmental issues. The share of sales at Fair Trade prices or above and the types of Fair-Trade coffee value chains have a significant influence on structures of cooperatives as well as economic and social upgrading of producers.

Since the origin of the Fair Trade movement and the fact Fairtrade being related to coffee, it is probably not by chance that it accounts for the largest share of Fairtrade certified products. Further, Peru has an important role in Fair Trade coffee. Peru's coffee exports represent 3% of the world's coffee volume (International Trade Centre 2020). What is special about it is that 90% of it is grown by smallholder farmers, 15-25% of whom are organized in cooperatives that belong to the Fairtrade network (Junta Nacional del Café 2021). Fairtrade defines smallholder farmers as producers whose production does not depend on hired labor but comes mainly from family labor (Fairtrade International 2021).

## 3.2 Semi-structured interviews

Qualitative research can generate different angles and perspectives on the research topic (Dannecker and Vossemer 2014: 154). As the thesis wants to analyze power structures and dynamics between actors especially at the beginning of the value chain, qualitative interviews are suitable because they allow to get to know “interpretations of situations, motives for action, self-interpretation, experiences and everyday theories of certain actors, groups or organizations” (Dannecker and Vossemer 2014: 154). Among various forms of qualitative interviews, semi-structured interviews were selected. Through general structuration of different topics and questions along a guideline, interviews remain flexible with regard to the formulation of the questions and the order of the topics (Dannecker and Vossemer 2014: 159). This allows flexibility and a different weighting of topics, “angle”, depending on the interview partner. Attention can be paid to the background of the interview.

Since qualitative content analysis was chosen as the method, there was some preparation in terms of content. I have already written two seminar papers on the topic of Fair Trade and cooperatives and have prior knowledge of the subject. According to Dannecker and Englert, a distinction must be made between prior knowledge and prior assumptions (Dannecker and Englert 2014: 239). So, I tried to keep as much openness as possible. However, without a preparation in terms of content, certain things cannot be perceived at all (ibid.). Dannecker and Englert emphasize that qualitative data should be theory-generating and not serve to exclusively confirm theoretical approaches or concepts (Dannecker and Englert 2014: 239).

The interviewees were selected through theoretical sampling. Subjects who prove to be adequate in terms of content regarding the research question and who promise to provide rich information about it were chosen. First, cooperatives from the Fairtrade register were contacted. After having some initial contacts, the so called “snowball-system” (Flick 2004: 93) was used to get in contact with other stakeholders. When selecting interview partners, it was taken into consideration that stakeholders at different stages of the value chain are represented. Cooperatives differ in size, location, foundation and length of affiliation in Fair

Trade. A diversity of smallholders in terms of production volumes, size of land holding, and quality of produced coffee have been interviewed to understand their territorial and network embeddedness. To get a broader outline, some additional interviews with relevant stakeholders were conducted. As already described above, there is nevertheless a certain bias in the sample design which results in limited representativity. The actual conducting of interviews depended on availability of interviewees as well as on available financial and time resources.

The overview of interviewed stakeholders with geographic location and occupation/activity are listed in *Table 1*. Interviews were conducted personally at the place of producer's work, their homes, at cooperative's central offices or in restaurants. All interviews were conducted in Spanish.

*Table 1: List of interview partners*

| Number | Date | Location | Interview partner |
|---|---|---|---|
| 1 | 23.03.2022 | Jaén, Cajamarca, Peru | Logistics specialist of cooperative |
| 2 | 25.03.2022 | Rodríguez de Mendoza, Amazonas, Peru | President of cooperative |
| 3 | 30.03.2022 | Río de Pesca, Amazonas, Peru | Associate of cooperative |
| 4 | 01.04.2022 | Río de Pesca, Amazonas, Peru | Associate of cooperative |
| 5 | 01.04.2022 | Mashuyacu, San Martín, Peru | Quality controller of cooperative |
| 6 | 02.04.2022 | Nuevo Chirimoto, San Martín, Peru | Associate of cooperative |
| 7 | 03.04.2022 | Rodríguez de Mendoza, Amazonas, Peru | Associate of cooperative |
| 8 | 04.04.2022 | Rodríguez de Mendoza, Amazonas, Peru | Logistics specialist of cooperative |
| 9 | 04.04.2022 | Rodríguez de Mendoza, Amazonas, Peru | Agronomic advisor of Peruvian NGO |
| 10 | 12.04.2022 | Jaén, Cajamarca, Peru | Managing director of cooperative |
| 11 | 19.04.2022 | San Ignacio, Cajamarca, Peru | Agronomist of cooperative |
| 12 | 20.04.2022 | Jaén, Cajamarca, Peru | President of cooperative |
| 13 | 22.04.2022 | Jaén, Cajamarca, Peru | Managing director of cooperative |
| 14 | 22.04.2022 | Jaén, Cajamarca, Peru | Managing director of cooperative |
| 15 | 23.04.2022 | Jaén, Cajamarca, Peru | Managing director of cooperative |
| 16 | 26.04.2022 | Jaén, Cajamarca, Peru | Representative of CLAC Peru |
| 17 | 28.04.2022 | online | Sourcing manager of Swiss specialty coffee importer |
| 18 | 28.03.2022 | Piura, Piura, Peru | Managing director of cooperative |
| 19 | 29.02.2022 | Rodríguez de Mendoza, Amazonas, Peru | Sourcing manager of Swiss coffee retailer |

In order to address the research questions, 5 categories of interview partners were identified: (1) associates of cooperatives, (2) technical staff of cooperatives, (3) managing directors of cooperatives, (4) representative of CLAC, (5) (specialty) coffee trader/importer.

To get a comprehensive insight, the interview guideline contained thematic blocks. Research questions were operationalized through more open questions at the beginning of each block and more detailed (or sensitive questions) at the end of a thematic bloc (Dannecker and Vossemer 2014: 160). Final questionnaires contained several major thematic blocs which included:

For actor group (1) associates of cooperatives:

*(A) Introduction of interviewee*
*(B) organizational structure of cooperative and benefits*
*(C) perception of Fair Trade technically*
*(D) perception of Fair Trade as a movement*
*(E) national policies*
*(F) trends, drivers, challenges and future outlook*

For actor group (2) technical staff of cooperatives:

*(A) Introduction of interviewee and organizational profile*
*(B) Coffee GPN in Peru: competition and cooperatives*
*(C) Perception of Fair Trade technically and as a movement*
*(D) Fair Trade coffee value chains and its implications*
*(E) national policies and initiatives*
*(D) future outlook*

For actor group (3) managing directors of cooperatives:

*(A) Introduction of interviewee and organizational profile*
*(B) Coffee GPN in Peru: price volatility, risk management, competition and cooperation*
*(C) Perception of Fair Trade technically*
*(D)Perception of Fair Trade as a movement*
*(E) Fair Trade coffee value chains and its implications*
*(F) National policies, initiatives and representation*
*(G) trends, drivers, challenges*

For actor group (4) representative of CLAC Peru:

*(A) Introduction of interviewee and organizational profile*
*(B) Coffee GPN in Peru*
*(C) Fairtrade as an institution*
*(D) Fair Trade as a movement in Peru*
*(E) National policies, initiatives, and representation*

For actor group (5) (specialty) coffee trader/importer:

*(A) Introduction of interviewee and company*
*(B) Coffee GPN: price volatility, risk management, actor level*
*(C) certifications and trading practices, Fair Trade*
*(D) open questions, additions*

The interview guidelines can be found in *Appendix I.*

Out of 19 conducted interviews, 16 were recorded with consent of interview partners. During three interviews, written notes were taken because the environment was inappropriate to record. Additional details from informal talks to people I met, gave supplementary helpful information. In these cases, notes were taken.

After the fieldwork, interviews were transcribed and then systematically analyzed using content structuring qualitative content analysis of Kuckartz and Rädiker (Kuckartz and Rädiker 2022: 129-131). Categories were developed step-by-step following seven phases of content structuring qualitative content analysis in order to emerge a final category system to analyze the material and answer the research questions (ibid.). Phase 1 is reading, summarizing, and highlighting important text parts. The second phase is the development of main categories – in this case they are content-based and derive from research questions. Phase 3 consists of assigning text sections to categories. This is also where it becomes apparent which parts are not relevant to answering the research question, as they remain uncoded. I worked with the computer software program MAXQDA which enables to work with large text volumes and different documents (Kuckartz and Rädiker 2019: 196-198). In phase 4, a differentiation of main categories is made. According to the procedure of inductive category formation, subcategories are formed. Each of them has a definition but not every main category is necessarily differentiated to one or more subcategories (Kuckartz and Rädiker 2019: 141; 82-84). Subcategories are developed based on the material according to the procedures of inductive category formation. The fifth phase, the transcripts are gone through again and the subcategories are assigned to the text passages. This is the second coding process. The following table (*Table 2*) shows main categories and subcategories used for analyzing the qualitative interviews conducted in Peru.

*Table 2: Main categories, sub-categories and sub-sub-categories built in process of interview analysis*

| **Main category** | **Subcategory** | **Sub-Sub-category** |
| --- | --- | --- |
| Structure and organization of cooperative | - Use of Fairtrade premium<br>- Coffee acquisition<br>- Quality analysis<br>- representation | - hierarchies, power structures |
| Certification technically | - Price differential<br>- Criteria<br>- Audit | - Fairtrade<br>- Organic<br>- UTZ, Rainforest<br>- others |
| Fair Trade as a movement concept | - Advantages<br>- Strategically used | - Hierarchies, power structures |
| Production | - Data about production, supply, and export<br>- Other income/ income diversification | |
| Coffee prices | - Price volatility, risk management<br>- National market price | |
| National and international policies coffee sector | - National coffee board Cámara de café y cacao; Junta nacional de café | - Projects and funds Ministry for Agriculture<br>- Cooperative law |
| Coffee GPN | - Supply and demand<br>- Upgrading | |
| Contracts and pricing of certified coffee | - Types of Fair Trade value chains | - Engagement and collaboration of customers |
| Trends, drivers, challenges | - Access to credits<br>- Corruption in Peru, in cooperatives and in Fairtrade<br>- Diseases/plagues<br>- Climate change<br>- specialization | - Specialty coffee |
| Other remarks | - | - |

Source: Author

For phase 6, simple and complex analyses, Kuckartz and Rädiker suggest different options from which I chose “case x category matrix”. The coding made beforehand in MAXQDA helps a lot to illustrate the matrix. *Figure 1* gives an example of the matrix using the category “Use of Fairtrade premium” and three different interviews. In phase 7, results are documented, and processes described.

*Figure 1: Excerpt of “case x category” matrix*

| | 02.04.2022 Interview 6 | 20.04.2022 Interview 12 | 22.04.2022 Interview 15 |
|---|---|---|---|
| Use of Fairtrade premium | Yes, of course, it is an incentive. The producer can improve his farm, his field, his house. See what he does. Maybe he needs a roof to dry his product better. To make it easier for him to make a wet coffee processing tank, which makes it easier for us. Maybe build solar tent, which helps you instantly for better coffee drying and for more quality. | The issue of Fair Trade in these years that we have been developing is... we allocate it to training, field development. We improve our laboratory, and we support productivity with solar tents, fertilizers, technical assistance, improvement of the organization's equipment... | We invest in the technical area, in inputs like fertilizers, collectors, solar tents and another part in the demonstrative farms. Sometimes, the premium is not enough, if there are only 20 lots FTO. We must sacrifice from the profits then. |

Source: retrieval from MAXQDA

## 3.5 Limitations, positionality and reflections on research stay

There are several limitations concerning my research stay in Peru. As with many studies on Fair Trade and policy interventions, it is difficult to impossible to measure causal effects of interventions because there are rarely suitable control groups (Ndongo and Leye 2014: 114; Ruben and Fort 2012: 571). Like most studies on Fair Trade, I also cannot do a baseline-endline comparison. My results rely on the interviews I conducted with stakeholders that belong to certified organizations. The share of exports at FTO prices of all interviewed cooperatives is (significantly) higher than the national average, which is why the results must be interpreted accordingly (see section 6.1).

Flick (2004) states that “the nature of this role and position essentially determines which information the researcher has access to and which he is denied access to” (Flick 2004: 87). I have been met with great openness and my interest has been acknowledged with pleasure and pride. There have been numerous situations in which I have been seen as an authority figure simply because I have acted as a researcher. I am aware of the underlying power structures and of my privilege as a white European woman to do research in this field. Perceptions and attributions of a cultural, social or gender-specific nature are fluid and were constantly renegotiated during research and they varied significantly depending on who I was talking to.

I decided to get access to interviewees on my own and not via an NGO or Fairtrade itself. In my experience, this has created greater neutrality and led to greater honesty. Initially, some people thought I was an auditor for Fairtrade International or a potential customer because these are mostly the only foreign guests who come to the region. After clarifying my interest and making sure I was not in a conflict of interest, we often reached a confidential level. This could also only be achieved through my pre-existing contacts through an internship in 2019. The contacts turned out to be crucial, as it was only through them that the "snowball-system" worked (Flick 2004: 93). As Englert and Dannecker (2014) mention, participation in local events, meetings, and openness to informal conversation proved very helpful to the research, both for making contact and for understanding the context and interpreting the data (Englert and Dannecker 2014: 253-54). I had the chance to conduct interviews until I have felt a sense of saturation in terms of content and no further essential information was added by more interviews (ibid.). What is important to mention is that my interview partners represent only ten organizations while there are currently 175 Fairtrade certified organizations related to coffee in Peru. Even though the selected cooperatives are located in different regions, vary in size and their establishment on the market, the significance and representativity of the results is nevertheless limited due to the small sample.

Another factor that requires reflection is that, apart from two interviewees, all were male. Gender is a structural category that influences fieldwork, interactions and the interview analysis process and needs to be considered (Englert and Dannecker 2014: 246). The coffee sector is very male dominated, and positions of power are mainly held by men. As I wanted to understand and analyze the structure of the different types of chains, I accepted this fact and did not bring gender balance into my selection of interviewees. However, I am aware that gender has an impact on the interview situation and my fieldwork. In all interviews, the topic of gender was explicitly discussed, and the interviewees spoke of gender equity initiatives in the organizations. However, the fact that I only spoke to men who held presidential or managerial positions shows that addressing the topic has not yet led to implementing gender equity, for example in the form of a female president of a cooperative (see section 6.3.2).

# 4. Fair Trade in the coffee sector

## 4.1 Production area, varieties and processing

Coffee is grown on so called coffee belt which is located between the latitudes 25 degrees North (25°N) and 30 degrees South (30°S) of the equator where climate and soil are suitable for growing coffee. There are 12.5 million coffee farms in the world and approximately 95% of these are smaller than 5 hectares which classifies them for "smallholder farms" (International Trade Center (ITC) 2021: 4). In 2017, 70% of total coffee production was exported, worth 19 billion US-Dollars ($). The sector had a retail market value of $83 billion and provided jobs for 125 million people worldwide (ITC 2021: 2). Main production countries are Brazil (55.2 million bags) and Vietnam (26.9 million bags), followed by Colombia (12.2 million bags), Indonesia (10.9 million bags). Peru produces 4.1 million bags (ITC 2021: 4).

The two coffee species that are mainly produced are *coffea arabica* and *coffea canephora*, known as Arabica and Robusta. Both count more than 100 varieties while Arabica make up 80% of world production and Robusta 20% (World Coffee Research 2023). Arabica coffee is grown on 700-2200 meters above sea level (masl) in a mild tropical climate with an average temperature of 19.5 degrees. Robusta is grown in lower areas on 0-900 masl with ideal temperature of 24 degrees on average. Fine-tasting, high-quality and specialty coffees are Arabica varieties, while Robusta is used more commercially for soluble coffee, and caffeinated products. Since Robusta is more resilient to diseases, harsh environmental conditions and warmer climate, it could play an increasingly important role in the future (ITC 2021: 9).

It takes 200 to 260 days from flowering to harvesting ripe coffee cherries. After being harvested during the day, the ripe coffee cherries are processed. In different regions, producers and retailers market green coffee, dry parchment coffee, wet parchment or coffee cherry. Sectors are set up differently and dispose different infrastructure. The processing of Peruvian producers and cooperatives (dry parchment) is as following: the pulp is squeezed off, the seeds (two “coffee beans” in every cherry) are fermented for about 12-15 hours and washed. Then, they must dry for two to four weeks, depending on the weather, and are treated so that the humidity decreases evenly until it reaches 12%.

The drying process is the biggest challenge for the producers in Northern Peru. If it rains for several days and there is no way to cover enough square meters, it is extremely difficult to dry, for example, 250 kg of coffee at the same time. The producers bring their dried coffee as dry parchment to the headquarters of the cooperative. Dry parchment refers to washed coffee that has been dried but not hulled and selected yet. Under adequate conditions, it can be stored for several months since the parchment skin protects the coffee.

For quality analysis, different parameters are analyzed by the cooperative’s staff: random samples, where random samples are analyzed and paid according to moisture and yield. Cooperatives conduct a tasting and classify coffees according to its quality (see section 6.2.2). After the sample analysis, the coffee is can be processed for export: The husk is removed from the seed and the remaining green coffee is sorted by machines according to size, weight and defects, so that the first-choice coffee seeds make it to the end. Finally, these are filled into bags of 69 kilograms and are prepared for export.

## 4.2 Global Production Network coffee: actors and governance

The physical supply system for coffee is relatively not complex compared to other agricultural primary commodity markets. While the primary commodity, green coffee, is produced in low-income countries in the Global South, its consumption takes place mainly in high income countries in the Global North at a consumption stage as a beverage (Newman 2009: 544). Coffee is mostly produced by smallholder farmers. Exception from this are some big sized estate sectors in Latin American countries. Marketing systems differ as well as state intervention or coordination of distribution. Newman defines the international coffee system as one with vertical (supply systems) and horizontal (national and international political and economic) structures:

> *"The components of the coffee system thus include: the various market actors that are involved in the production, marketing, and processing of physical coffee; the financial intermediaries operating on international commodity exchanges and the institutional and private investors that they serve; and the regulatory environment faced by different actors at different levels of the supply chains as well as the regulatory environment of the international exchanges"* (Newman 2009: 543)

Gibbon (2001: 61) underlines that the commodities discussed are rain-fed and that exporting countries from African, Asian colonies shared similar experiences with independent states in Latin America. States were involved in propagation and cultivation was supported by reduced entry barriers. Productions systems changed from plantations to peasant based but led to the danger of over-supply while demand for these commodities was income inelastic in the case of coffee and cocoa or inelastic due to substitution by industrial products. Some associations controlled prices successfully for a period of 30 years (International Coffee Organization, also cocoa, natural rubber and cane sugar). According to Ponte (2002: 1101), coffee became one of the first "regulated" commodities. Price stabilization systems were difficult to maintain when world market prices fell massively (Gibbon 2001: 62; Tucker 2017: 119). Furthermore, while chains were organized horizontally at the national level by local exporters, this was not the case internationally (Gibbon 2001: 62).

While from 1930s to 1990s, there were producer-driven chains, they decreased, among other reason, due to breakdown of international producer cartels which was a consequence of the emergence of other producer countries, mainly in Asia (Gibbon 2001: 62). Over-supply lead to power increase of international traders that took advantage of economies of scale in terms of transport, storage, finance and trade different commodities. Their form of vertical coordination contained mostly the exchange of commodities in transactions between international traders and industrial consumers on a treaty basis by-passing commodity exchange in London and New York (Gibbon 2001: 63). It is no coincidence that production takes place where labor costs are low, as profits for governing actors of the production network increases if labor costs are minimized (Tucker 2017: 119).

According to Gibbon, process upgrading was less relevant in developing countries and consisted only in more efficient seeds and crop sequence (Gibbon 2001: 63). Quality differentials and premia were elaborated to link suppliers with international traders, but producers were still exposed to price volatility which also hindered incentives for product upgrading (Gibbon 2001: 63). Functional upgrading was executed by developing countries: they occupied new commercial functions including hedging, became part of international transport system and localized raw material processing, like hulling of coffee (Gibbon 2001: 63).

Through technological, political, economic changes, TNCs could increase profits, market control and management of coffee supply for their advantage (Tucker 2017: 125). Structural changes took place in the coffee sector and led to price volatility and exposure to risks for producers (Newman 2009: 541). In the conventional commodity chain, producers sell their beans to intermediaries like local- or regional-level traders, cooperatives, agents or regional processors. In the 1980s, a restructuring was happening because small and mid-sized traders found themselves unable to compete and were bought out by large trading companies that had to improve supply networks to meet TNCs demands. TNCs decided to outsource their supply chain management to gain flexibility and to be able to substitute supplier and trader. They could reduce costs, increase percentage of total income and market control (Tucker 2017: 123). Increased portfolio investment in commodities, increased volumes of derivate trading for the reasons of hedging and speculation fostered the financialization of commodity markets (Newman 2009: 542).

Larger producer organizations/exporters make use of a scaling effect and sell fixed-price contracts. Smaller producer organizations do not have this option because they may not fulfill the contract. International traders have specialized financial units and have therefore a good price risk management through hedging. Farmers do not have price risk management other than varying production volumes (Staritz et al. 2015: 53; see section 4.4). The coffee market is highly competitive and buyer-driven, and it is expanding (Ponte 2002: 1112). The main driver for demand of coffee has been rising consumption in emerging economies and coffee-producing countries (International Coffee Organization 2019; Cámara de Café y Cacao Peru 2023b).

Levers in the coffee value chain are pulled by traders, roasters, and retailers. They determine how value is distributed. According to Talbot (1997), surplus was shifted from coffee-producing countries to TNCs: They inflated the price of coffee processed for final consumption but hold the price for green coffee which led to immense profit margins for large retail chains, roasters and supermarkets and power concentration (Talbot 1997: 86; Lee et al. 2012: 38). Coffee trading is becoming more concentrated towards a few large coffee trading companies which do not trade only coffee but also other commodities. This diversification facilitated the market share increase. The two largest coffee traders, Neumann Kaffee Gruppe and Volcafé, controlled 29% of the total market in 1998. Top six companies controlled 50%. In 2006, Volcafé alone (now part of ED&F Man) and Neumann Kaffee Gruppe could expand their dominance and control over 30% of green coffee world trade. Top five companies have a market share of over 55% and have advantages in terms of capital, knowledge and information which facilitates hedging (Newman 2009: 544). Through scaling effects, efficiency gains from improvements in technology and communications were achieved and trade margins increased. The final processing state of roasting and blending is also very concentrated: The five largest roasters Philipp Morris, Nestlé, Sara Lee, Procter & Gamble, Tchibo purchase almost 45% of green coffee import (Panhuysen and van Reenen 2012). There are bipolar actors that include trading and roasting and even tripolar firms that carry out trading, roasting and retailing, thus securing and expanding their strong position on the market.

Large roaster’s blends are flexible, they switch coffees in and out and are therefore not depending on any trader, producer, or origin country. Every actor is interchangeable why roasters can drive coffee prices down. Conventional coffee itself is an interchangeable commodity and therefore traceability is neither necessary nor desired. They try to buy the cheapest combination of coffees and can maintain or expand profits even if their costs rise (Tucker 2017: 125). This is how producing countries get into a strong competition because they depend on selling large volumes. While producers lose income, consumers lose quality under these conditions. Roasting companies understood how to maximize market share and through their own brand experience, they achieve customer loyalty although there is no information such as origin that could be found in other competing brands. "*The closer their blends are to a recognizable specific coffee input, the more difficult the brander will find it to minimize costs by substituting low-cost for high-cost beans"* (Kaplinsky and Fitter 2004: 8).

Tucker states that coffee crises were avoided through lifting and tightening of quotas but there was no renewal of International Coffee Agreement (ICA) because TNCs gained more control over the coffee value chain and worked against another ICA (Tucker 2017: 120). The role of governments became weaker, and the worlds market fragmented: The quota system ended, and the control went to private trading companies while producing countries lost their influence. Price stabilization programs as well as market boards faltered or went bankrupt and mark a changing point of international coffee supply system (Daviron and Ponte 2008: 20; Newman 2009: 545).

Starting in 1980s, some measures were implemented as part of the "new political economy" that was promoted also by aid agencies and was part of an export-led growth strategy of developing countries (Daviron and Ponte 2008: 20). Liberalization of agricultural market in developing countries was marked by (1) privatization of public enterprises processing or marketing commodities; (2) deregulation and promotion of competition in input and output markets; (3) elimination/reduction of subsidies and taxation, including domestic price stabilization tools (Daviron and Ponte 2008: 20). In 1986, the World Bank promoted even the use of risk management tools by traders and farmers in developing countries using future markets as main instrument (Daviron and Ponte 2008: 23).

As Tucker (2017) aptly points out, the purely economic dimensions pale next to the suffering and ongoing injustices associated with the coffee production. Producers' percentage of the total income of coffee is estimated to be less than 5% of the costumer retail price (Bager and Lambin 2020). Slavery, land confiscation, forced labor, destruction of rural livelihoods and indigenous cultures are inherent in coffee production. Tucker sums it up fittingly when he states that coffee shaped the history of nations, social inequality, and human rights in many countries around the world (Tucker 2017: 117).

## 4.3 Formation of coffee price and financialization

Coffee is traded as a commodity; it is considered as standardized and substitutable which means that its physical value is disassociated from the process of its production. While coffees were segregated by the name of the port before, from 1880s on, New York futures market started to facilitate a standardized trade (Daviron and Ponte 2008: 69). Futures and derivatives contracts are concentrated on New York exchange for Arabica coffee and London for Robusta (Newman 2009: 546).

Coffee prices are subject to great volatility due to two reasons: Firstly, there are massive changes in supply because of weather conditions and other events like disease outbreaks, social instability etc. (Tucker 2017: 114). The second reason is that between planting and first harvest there is a delay of several years (ibid.). These two factors combined create an imbalance in supply and demand. The disproportionate importance of few major coffee-producing countries leads to a rise of the global market price when harvests have turned out poorly and, vice versa, when harvests were profitable (Tucker 2017: 114).

Increased volatility in coffee prices lead to an increased need to engage in future trading. This, in turn, has reinforced the concentration of international traders (Newman 2009: 547). Consequently, there are more financial activities in commodity markets and a changed composition of exchange traders. This modified market characteristics and caused enhanced price volatility as well as a mismatch between exchange prices and supply and demand realities (Newman 2009: 547). According to Talbot, TNCs have been edging up prices since 1970s so that the coffee price for consumers got disconnected from the global market price (Talbot 1997: 68).

While producing countries had a lot of bargaining power in negotiation with international trading companies from 1906-89, during World War II, Europe's coffee demand reduced dramatically, and coffee prices collapsed. To assist Latin American governments that depended on coffee exports for solvency and stability, the US government signed the Interamerican Coffee Agreement in 1940 which raised coffee prices by 60 per cent (Tucker 2017: 119). Later, the Mexico Agreement (1957) and the Latin American Agreement (1958) was signed to limit production and stabilize prices which dropped by mid-1950s again (ibid.).

Also later, the first International Coffee Agreement (ICA) was signed in 1962 to stabilize coffee prices and profits both for main coffee producing and consuming nations. This led to the emerge of the International Coffee Organization as an intergovernmental body for aspects associated with coffee (Tucker 2017: 120). Following agreements stabilized coffee prices successfully between 1962 and 1989 mainly through constrained production and rejected coffee if quotas were exceeded (ibid.). Asian and African countries faced a coffee rust and had a reduced harvest which led to diversification of income and a fall behind Latin American countries that were free from coffee rust until 1970s and became the world's dominant coffee-producing region (Tucker 2017: 115).

Brazil became the major coffee producer already by late 1800 when it represented two-thirds of global coffee production, but it led to a price fall after 1875. Frosts or other phenomena in Brazil influenced price rise and fall in 20$^{th}$ century. "With each frost, prices rose and encouraged geographic diversification and increased production, which repeatedly cycled into more coffee supply and lower prices" (Tucker 2017: 117). Increased production which was in excess of global demand in 1999/2000 caused a four-year fall of coffee prices which went below cost of production for many producers and led to a coffee crisis (Tucker 2017: 122). Especially Central American countries experienced the coffee crisis because at lot of people's income depended on the coffee sector. Farmers had different strategies to cope with the crisis: some abandoned or reduced their plantations, diversified them or migrated in order to search for work (ibid.). Some governments conducted programs to mitigate price volatility, but only few smallholder coffee farmers had enough resources to cushion the effects of the crisis (ibid.).

The price of coffee then rose again until 2011, before falling by 65% due to the economic crisis and oversupply (Fairtrade Foundation 2023). Drought and frost in Brazil as well as the Corona pandemic caused further significant price fluctuations. When interviews were conducted in March and April 2022, the price of coffee was higher than it had been for the last ten years. Producers in Peru benefit of failed harvests in other parts of the world, this time Brazil, because it lifts up prices in Peru (Tucker 2017: 114; Interviews 10; 12). This shows in its absurdity that a relatively constant product is sometimes worth more and sometimes worth less.

It depends on the structure of the production and marketing system of the producer country and types of price risk management of downstream actors if volatile prices are transferred upstream along the coffee value chain (Newman 2009: 549). Producing nations failed in various attempts of an effective price stabilization agreement. Consuming countries have agreed on International Coffee Agreements, but none has ratified, and producing countries struggle with the dominance of TNCs without the support of consuming countries. The ICO has not achieved to influence global markets. Some countries implemented differentiation policies and grading systems: The Colombian coffee agency Fedecafé imposed the name “Café de Colombia” as a quality sign (Daviron and Ponte 2008: 74). Institutionalization has allowed Colombia to stand out in terms of coffee quality, which is why quality differentials continue to be paid (Federación Nacional de Cafeteros de Colombia 2023).

The shift from price stabilization systems to private price risk management intensified financialization in coffee chains. This in turn consolidated dominant market positions of large traders because chain actors have uneven access to finance, information and hedging instruments (Newman 2009: 550-557). Speculative elements of futures contracts attracted increased participation of financial investors. Specialized financial units with research departments, brokers and financial investors do hedging as core competence and drive the industrial concentration and financial activity in coffee trade (Newman 2009: 549).

The disconnection of physical availability and futures trading changed coffee trading at the international level to a financialized business (Newman 2009: 548): Traditionally, physical traders bought and sold futures contracts that were based on physical coffee. Now, financial investors influence exchange prices and physical traders consider hedging decisions into their market decisions. The risk of high losses is so high that smaller trading companies do not take part in these types of financial activities (Newman 2009: 548-549).

Power is also exercised by the determination of the type of contract. Futures prices originated on the New York and London coffee exchanges play an increased role in physical coffee system price determination because fixed-price-forward contracts are increasingly replaced by price-to-be-fixed contracts. This means that the delivery date and volume are determined but the price is fixed at some point between writing the contract and delivery date. For the determination of price and for hedging, futures prices and coffee future exchanges are important and therefore penalizes small producer groups (Newman 2009: 546). It reinforces also short-term price movements although local traders are shielded from very short-term fluctuations in world prices to an extent (Newman 2009: 555). The most important factor limiting the benefits from forward integration strategies like alternative trade as Fair Trade is the control over the consumption end of the commodity chain by TNCs (Talbot 2002: 701; see section 6).

### 4.4 Certifications in coffee GPN

There are several voluntary sustainability standards (VSS) that emerged over 30 years ago to address environmental and social development challenges in coffee production. They were elaborated by NGOs, private sector actors and other industry stakeholders in order to be able to distinguish between conventional coffee and a more sustainably produced equivalent (International Institute for Sustainable Development 2019: 2). The most widespread are organic, Rainforest Alliance, UTZ[5] and Fairtrade that "aims a balance between strict standards and marketability" (Tucker 2017: 133). VSS-compliant coffee makes up at least 34% of coffee production, but the demand is lower than supply (International Institute for Sustainable Development 2019: 3). Starbucks' CAFÉ Practices and Nestle's Nespresso AAA programs are examples of corporate sustainability initiatives that are not audited by a third party but by the companies themselves.

As described, the origin of the Fair-Trade movement and Fairtrade is related to coffee. It accounts for the largest share of Fairtrade certified products. By far most producers are involved in coffee production, 838,116 in 2020 (Fairtrade International 2021). The goal of Fair Trade is the empowerment of small-scale producers, their strengthening on the world market and access to it. As a result, living conditions of farmers in developing countries should be improved which is tried to be done through two instruments: Fairtrade sets a minimum price for products that are normally subject to price fluctuations on the world market, making long-term planning and some income security for producers impossible (FLOCERT 2021). In addition, the Fairtrade premium is paid to small producers or workers and is used for projects producers' organizations have agreed upon, e.g. for trainings. Further, social and environmental criteria are intended to ensure an empowerment of farmers and workers to face a range of economic, environmental and social challenges[6]. Cooperatives and

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[5] Rainforest Alliance and UTZ merged in 2018 to one single certification and traceability program that is named Rainforest Alliance (Rainforest Alliance 2021).

[6] 1. Fair remuneration (a living wage), 2. safe working conditions, 3. respect for children's rights and no forced labor, 4. transparency and accountability, 5. stable and fair business partnerships between buyers and producers, 6. environmentally sound practices, 7. capacity building (Tucker 2017: 128).

associations play a central role to pool resources, share knowledge, and become a stronger business (Fairtrade International 2021).

In very simple terms, certification reduces complexity: Since consumers cannot track for themselves the conditions under which coffee was produced, they use a certification that takes over this monitoring of certain standards for them and for which they pay an additional price. At the same time, retailers externalize risks by buying a certified soft commodity (Kister 2019: 195). The Fairtrade Labelling Organization (FLO) developed clear criteria that include social, ecological and economic standards. Social standards are self-organization, decision-making, access to information, and ensuring freedom from discrimination. This mainly concerns small producers, who can be considered as self-employed. Regarding employees, certain labor rights must be guaranteed, no discrimination, fair wages (at least the national minimum wage), and the right to self-organization. In addition, forced labor and child labor are prohibited. Ecological criteria are defined somewhat more roughly. Producers are required to use water efficiently, promote biodiversity conservation and limit the use of pesticides. Directly prohibited is the use of various hazardous substances and all types of genetically modified organisms.

Although Fairtrade does not require organic certification, a large number of products are organically produced and meet organic standards. Regarding coffee, the percentage of additionally organic certified producer organizations is increasing and was over 50% in 2018 (Fairtrade USA 2021). In contrast to Fairtrade certified coffee, organic coffee is not so much subject do speculation and price suppression. According to the interviewees, the organic certification is the most important and because it is more reliable: Organic certified coffee is mostly sold with organic premium, while there are very different purchasing practices for Fairtrade certified coffee (see section 6). This can be explained, inter alia, by rising demand and limited supply of organic certified coffee. Peru stands out for its high rate of organic coffee since it is the second largest exporter of organic coffee after Mexico (Junta Nacional del Café 2021; see section 5.1).

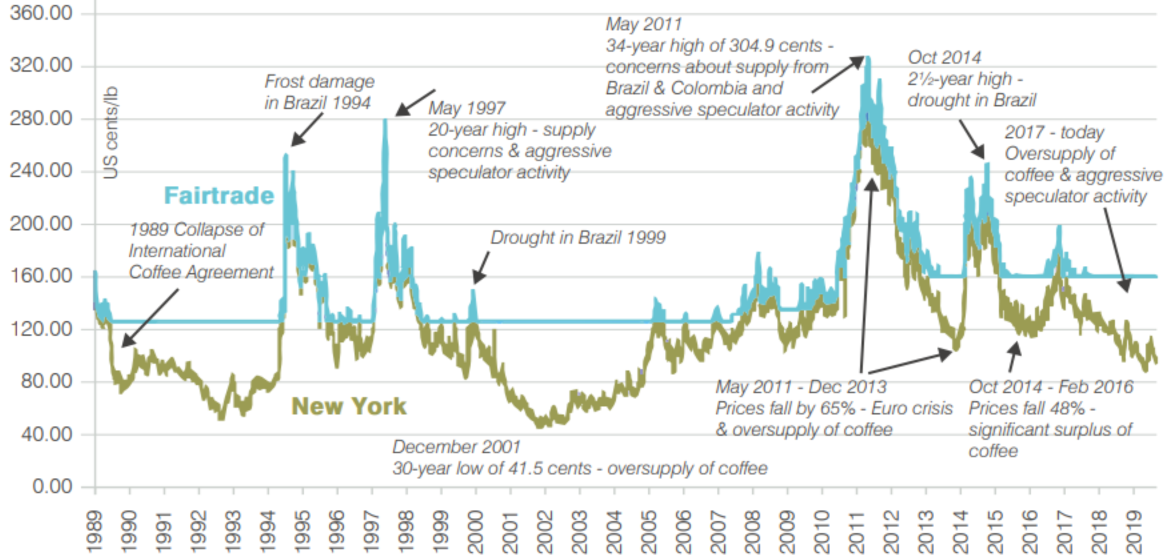
As a market-based instrument, Fairtrade sets a *minimum price* for products that are normally subject to price fluctuations on the world market, making long-term planning and some income security for producers impossible. Fairtrade International provides a list of minimum prices for each product online. To determine a fair price, Fairtrade International has developed a complex procedure for assessing the costs of sustainable production. Fairtrade International offers a guide for multipliers and Fairtrade producers on how to collect the necessary data to estimate production costs to calculate a fair price. As market prices always fluctuate, there is also the possibility that the market price is higher than the Fairtrade minimum price. In such cases, FLO suggests that buyers either pay the current market price or negotiate a different price. As Fairtrade aims for long-term partnerships between producers and buyers, buyers are also required to provide pre-financing, if needed (FLOCERT 2021).

In addition to the Fairtrade minimum price, most products, among them coffee, include the *Fairtrade premium*. This is a certain amount of money that small producers or workers use for projects they have agreed upon, but at least 15% more than the purchase price. The farmers and/or workers in a producer organization decide democratically how the money will be used. Investments are used for infrastructure, schools, health clinics, educational scholarships, organizational strengthening or improvement of production practices, farming and business techniques (Dragusanu and Nunn 2018: 9). The idea behind the Fairtrade premium is to support sustainable and long-term development, creating a positive impact on communities in the Global South (Fairtrade International 2021a). For even though Fairtrade has now become very standardized and technical due to its enormous size, the audits conducted in four-year intervals by FLOCERT, the independent body that is Fairtrade's certification organization, are intended to ensure the standards described (FLOCERT 2021).

The guaranteed minimum price for Fairtrade certified conventional Arabica washed that producers get is $1.40[7] per pound (lb[8]). For conventional Robusta washed it is $1.05/lb. The Fairtrade premium is $0.20/lb. The differential for organic coffee is $0.30 per pound (Fairtrade International 2023). Hence, for Fairtrade-organic-certified (FTO) Arabica washed, producers get at least $1.90 per pound green coffee. Although only a part of the production is de facto sold at FTO price, price volatility is reduced, access to markets and credits as well as life quality of producers can be improved through Fairtrade (Gugerell et al. 2022: 202; see section 6). During the coffee crisis in early 2000s, Fair Trade prices could prevent the bankruptcy of many producers (Raynolds el al. 2004: 1117). *Figure 2* shows Fairtrade and New York Arabica prices between 1989 and 2019 and visualize large fluctuations in the price of coffee as well as the difference achieves through a guaranteed minimum price (see footnote 6).

[7] It should be noted that the Fairtrade minimum price for coffee was adjusted April 2023. Interviews were conducted and this thesis was written before, which is why the former price is discussed.
[8] 1 lb, a pound of coffee, is equivalent to 453.59 grams.

*Figure 2: Fairtrade and New York Arabica prices compared 1989-2019*




Source: Fairtrade International (2019)

# 5. Coffee sector in Peru

## 5.1 Overview of the coffee sector in Peru

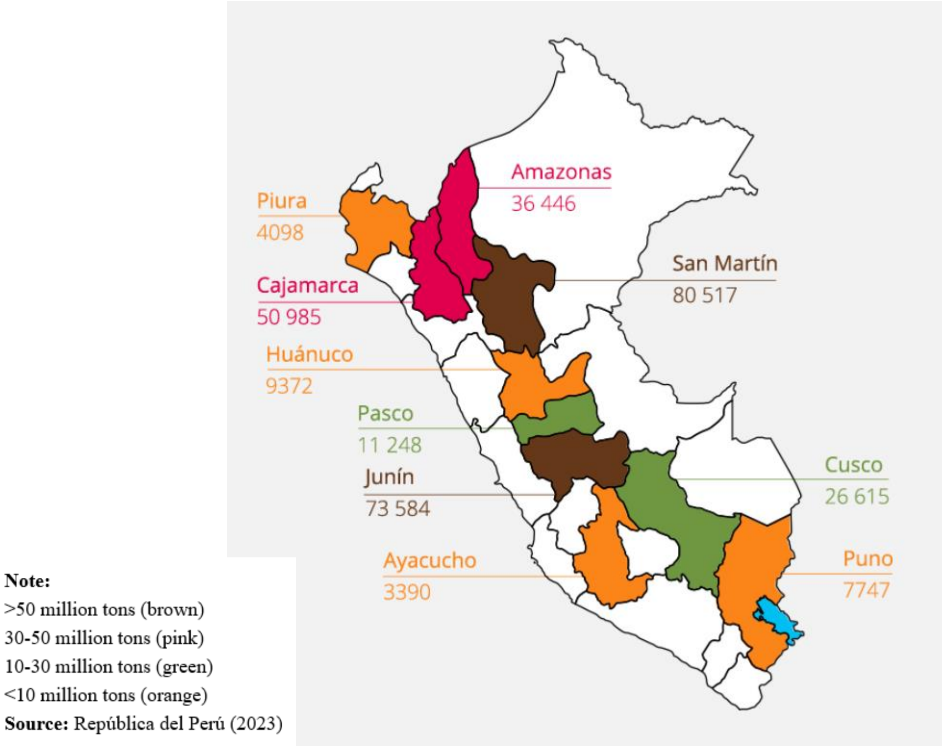
Coffee is Peru’s main agricultural export making up 25% of national agricultural income (Instituto nacional de Estadística e informática del Perú 2020: 35). Peru ranks 9th in global coffee exports which accounts for 3% of the world's coffee volume (International Trade Centre 2020; ICO 2021). Approximately 440,000 hectares (6%) of national farmland is occupied by coffee and is income for 223,000 producer families (MINAGRI 2020; UNDP 2019, Junta Nacional del Café 2023). It is estimated that coffee is a source of employment for two million Peruvians throughout the agricultural production chain (Junta nacional del café 2022a). A total of 75%-90% of coffee is produced by smallholder farmers who have on average 1.38 ha farm size. 15-25% of them are organized in cooperatives that belong to the Fairtrade network (Sachs et al. 2019: 93; Junta Nacional del Café 2022b). *Smallholders are defined by Fairtrade as follows: Producers whose production does not depend on hired labor but comes mainly from family labor* (Fairtrade International 2021). Power is unevenly distributed in the value chain: smallholders produce their crop in rural areas with low accessibility, sell it to intermediaries who in return resell it to exporters in the cities (Ramos et al. 2019: 394). Large distributors export great shares of Peru’s coffee: Perales Huancaruna exported 18% of total Peruvian export coffee in 2022, followed by Olam Agro Perú (9%) and

Comercio Amazonía (8%) (Junta Nacional del Café 2022b). It is remarkable that the cooperative sector is relatively strong in Peru: in 2021, 30% of coffee was exported by 114 cooperatives (Agencia agraria de noticias 2021).

The country is the largest exporter of organic coffee after Mexico. Peruvian coffee is known for its high quality and is particularly emerging in the specialty coffee sector (Junta Nacional del Café 2021). What is more, 25% of coffee exports are Fairtrade certified which is why Peru is very suitable for an analysis of global linkages and local impacts of coffee trade between niche and market expansion, quantity and quality (Junta Nacional del Café 2021). As Peru's coffee trade is caught between niche and market expansion and the prioritization of quantity or quality, it is well suited for a deep analysis of the impact of sustainability standards.  is thus ideally suited for an analysis of the impact of sustainability standards. Despite these aspects, Peruvian Fair Trade (organic) coffee and also specialty coffee is a rather less explored field in the existing literature.

47% of Peru's coffee is cultivated in Piura, Cajamarca, Amazonas and San Martín in the northern part of the country, making it an excellent region for the analysis (Instituto nacional de Estadística e informática del Perú 2020). Its production has increased from 81,000 tons of exported coffee in 2000 to 216,000 in 2021, while produced coffee in the central part of Peru (68,000 (2000) to 110,000 (2021) and in the South (37,000 (2000) to 40,000) (2021) has risen less (Cámara de café y cacao 2023). Within Peru, Cajamarca, Amazonas and San Martín are considered the poorest departments (Instituto nacional de Estadística e informática del Perú 2020). In 2021, 37,7% of the population's income is below poverty line in this region. However, this ratio decreased from the value of 51,3% in 2012 (Cámara de café y cacao 2023).  The region belongs to upper Amazon rainforest, and it provides specific geographic growing areas and microclimates. *Figure 3* shows coffee producing departments in Peru categorized according to the volume they produce.

*Figure 3: Coffee producing departments in Peru (in million tons)*




Source: Cafés del Peru (2023)

Coffee is grown here (except for some regions in Piura department) at 1000-1700 meters above sea level and mostly in partial shade as a mixed crop (Junta Nacional del Café 2021). Local contexts in these different regions are very heterogeneous: Cooperatives vary in size and face different challenges in terms of geographic and climatic conditions. Hence, cooperatives in different regions, of different size and with different establishment on the market were chosen. This has a huge impact on the shape of different types of Fair Trade. A cooperative that has 5000 associates has a greater scope to blend green coffees and to sell them in large quantities to supermarkets. On the other hand, if a cooperative focuses more on quality than quality, its coffee is priced higher and trade relations tend to be more direct. Among smallholders within one cooperative, there are different challenges: some have to travel very long distances to sell their coffee, others grow, ferment, wash and dry their coffee close to nodes. To achieve a comprehensive understanding, the thesis uses qualitative interviews with different stakeholders in the coffee GPN in Northern Peru.

Peru is leading producer of certified Fair Trade and organic coffee (UNDP 2018; World Coffee Research 2022). 124,000 hectares are organic certified which represents 28% of coffee farmland (Junta Nacional del Café 2022a). Peru is famous for its high-quality coffee and is emerging in the specialty coffee sector (Junta Nacional del Café 2021). Specialty coffee is understood as the particularly high quality of green coffee, which is characterized by bringing out special flavors through special geographical growing areas, microclimate and processing (variety, cultivation, fermentation, drying). It is a private standard introduced by the Specialty Coffee Association of America (Instituto nacional de Estadística e informática del Perú 2020).

Coffee is a highly market-oriented crop and main income in most cases. 70% of coffee farms are situated in the highlands: cultivation takes place at 800-20000 meters above sea level and mostly in partial shade as a mixed crop. Producers cultivate crops for home-consumption or the local market. Smallholders enjoy food security and food sovereignty (Junta Nacional del Café 2021).

Low productivity is one of the main challenges of the coffee sector and one reason for deforestation and ecosystem degradation apart from intensified agricultural activities as palm oil (UNDP 2019). Volatility of coffee price and the consequent rural poverty led producers to abandon their crops to grow coca or to change to grazing land for cattle (Taj 2019; Emiko et al. 2019). New agro-industrial products lead to migration from the zone to the coast: Peru has become one of the most important exporters of asparagus, grapes, avocado and blueberries in the world (European Commission 2022: 5). At the same time, during Covid-19 pandemic, migration from cities towards the coffee growing departments took place. Recently, people from the Andes are coming to the region, mostly to Jaén (Vargas et al. 2020: 5; Interview 5).

## 5.1 Fair Trade coffee in Peru

In 2020, 59,285 coffee farmers were certified by Fairtrade in Peru which makes up 26.5% of estimated coffee producing households (Fairtrade International 2022a). This number has risen sharply since 2016, when 48,527 were certified. They are organized under 175 organizations. After Colombia and Brazil, Peru has third highest Fairtrade coffee production in the world but got the highest amount of premium worldwide followed by Honduras and Colombia (Fairtrade International 2022a). This can be explained through the highest rate of sales at Fairtrade price which was a share of 22% on average (see section 6.1 and 6.2).

Fairtrade premium is mainly used for facilities and infrastructure (24%), human resources and administration, payments to members (reimbursement) (20%), provision of agricultural tools and inputs (12%), other services to members (7%), implementation of on-farm best practices (5%), farmer training in agricultural or business practices (4%), training and capacity building of Producer Organization staff, board, committees (4%). 2% are invested in services to communities, like infrastructure, health care or education (Fairtrade International 2022a). Cooperative organizational structure is crucial. Since Fair Trade can only be successful as a result of a coordinated community effort, they might be seen as facilitators of the movement's overall success.

Until 2008, there were very less cooperatives certified and therefore, there was less supply of Fairtrade coffee than demand. Because of that, it became easier to get the certification: organizations only had to present an application, the auditor came, the organization presented the documentation in order and got the certification, but without having a market. This led to an over-supply of Fairtrade certified coffee, an over-certification. Now it is again more challenging: To become certified an organization must have been constituted for two years and needs commercial activity. It must have financial statements, a balance sheet, a strategic plan, and the organization must already be working. Organizations have to present a confirmation letter of at least one buyer who buys at FT (Fair Trade) price (Interview 16). The regional producer network, CLAC Peru, does a pre-evaluation to prevent certification of fictious organizations which are created by traders but do not have real associates (Interviews 16; 10). CLAC is aiming to empower Fair Trade producer organizations, to reinforce a national representation of smallholders and cooperation with the national coffee board (Junta Nacional del Café) to implement an overall strategy (Interview 16).

CLAC Peru started to collect data for a living income but through the pandemic the data got lost. Based on the living income reference price for Colombian and Indonesian coffee, a reference price for Peru should be identified. On the one hand, it is to inform producers and strengthen their position in negotiation, on the other hand it is to make companies aware of which price is appropriate (Fairtrade International 2022b). It is a reference and a voluntary extra payment companies can undertake to support sustainable farming and a decent living for coffee producers. The minimum price and premium is still mandatory (Fairtrade International 2022b). When asked about an increase in the minimum price, the CLAC representative underlines the importance of agreement of buyers with the minimum price: *"Fairtrade is made by many organizations, but it is oriented to the market. If buyers don't accept the price and don't buy at the certified price, the whole system does not* *work!"* (Interview 16). CLAC Latin America elaborated a differentials guide for Latin American countries that is useful for producer organizations in their negotiations with their trading partners (CLAC 2022).

## 5.2 Coffee cooperatives in Peru

In Latin America, cooperatives have been established that were already well organized before they were certified.[9] They also had international contacts in the form of Christian missions, agricultural experts, representatives of Fair Trade organizations, NGOs, development aid organizations, etc. In Peru, these were mainly coffee cooperatives. They are therefore essential preparers for access to the Fair Trade network and markets or development relations with partners in the Global North (Ndongo and Leye 2014: 117). All long-established cooperatives I have visited got foreign church-related donations (e.g. from Caritas, MISEREOR) and worked the topic of cooparativism a lot in the first years (Interviews 1; 8; 9). Jesuit priests shaped the region Cajamarca, Amazonas, San Martín since 1930s and supported building of cooperatives and capacity building. That helped also to make contacts with customers in consumption countries (and reflects North-South asymmetry, see section 6.4.1). Christian values are widespread in the departments and most of the producers are religious. This plays a role that should not be neglected. As one interviewee describes a common principle: *"Treat others well, and God will reward you"* (Interview 5).

In general, agricultural cooperatives are widespread in Peru, partly due to urban and rural disparities within the country. They can be categorized as a production cooperative and have an elected board of directors and supervisory board. In principle, it is also true for cooperatives that people voluntarily join together to form a cooperative because this enables them to achieve certain goals better than they can on their own. Smallholder farmers face various technical and institutional constraints: poor access to information and extension, lacking credit opportunities as well as weak input and output markets (Dragusanu and Nunn 2018; UNDP 2019; Staritz et al. 2015: 53). Cooperatives work on these aspects why being associate is often described as an insurance. Kurjánska notes both economic and social upgrading for Peruvian coffee cooperatives, which is reinforced by the merger: In addition to facilitating market access, synergies are exploited in that investment costs for processing and

[9] In most cases, producers join and form an association, which is then later transformed into a cooperative. To get the Fairtrade certification, an organization does not need to be a cooperative legally. All the producer organization interviewed for this thesis are cooperatives why this term is used mainly.

logistics are borne by many and thus reduced for individuals (Kurjánska 2015: 309-311). Social capital also plays an important role, since belonging to a cooperative widens and deepens the network locally and beyond (Sirdey and Lallau 2020: 178). Being part of an organization is often described like a security and important identification factor (Interviews 5; 11).

The cooperative law emphasizes that cooperatives are an important agent "to contribute to economic development, to the strengthening of democracy and to the realization of social justice" in Peru (República del Peru 1964). The best legal entity is a cooperative for tax matters since cooperatives do not pay sales tax. A cooperative with 520 members has recuperated 160,000 dollars from 2015 to 2021 through repayment of sales tax (Interview 2). Being a cooperative is also advantageous to get credit more easily (Interviews 4; 8; 10; 13; 15). At the same time, before the harvesting season start, all cooperatives lack of capital. Surplus needs to be distributed to the associates to avoid corruption and misuse (Interview 8). Corruption is or has been a relevant problem for many cooperatives. As the political scientist Lijphart and Dahl describe consequences of power inequality in democratic societies, it applies similarly to cooperatives where authority, information, resources and education are in great imbalance (Lijphart 1997; Dahl 1957). This is a challenge for cooperatives, especially for participation in a highly competitive coffee market (see section 6.4.2 and 6.5).

Cooperatives fill in for the government when it comes to livelihoods. Coffee accounts for the largest share of agricultural exports in Peru, yet there is little government support for producers (Junta Nacional del Café 2021). Coffee cooperatives provide community service as building roads, building up water and electricity supply, support of education, health care and other infrastructure. According to studies, effective cooperatives provide a variety of advantages, including capacity building, information access, cost savings from collaboration that boost incomes, and cultural resilience (Tucker 2017: 139).

Services provided by cooperatives can be carried out also because of Fair Trade certification: Fairtrade premium leads to higher sales prices and higher budgets that according to the standards has to be invested partly in organizational development (FLOCERT 2021). If a coffee cooperative is Fairtrade certified, each producer must also be certified. Usually, entry into the cooperative occurs first and then certification, but the board of directors ensures that Fairtrade standards are met. Since the renewal of the Fairtrade certification costs money, it is for this reason also advantageous that several people can join together and thus share these costs. Likewise, the use of the premium can be invested jointly, which is decided democratically (FLOCERT 2021). Participation in a cooperative as well as certification are important facilitators for market access (Kurjánska 2015: 309).

In Peru, the cooperatives bought and exported the best coffee from early on: associates identify with their cooperative and feel responsible. Inscription fee was high (400 dollars 10 years ago) in a cooperative in Rodríguez de Mendoza (Interview 7). Both, cooperative and associate, enter into a mutual agreement: The cooperative buys 100% of the harvest and the associate sells 100% of harvest to cooperative, not to other intermediaries. This gives both planning security. Through this agreement, early certification, and the contacts with the Fair Trade movement and customers described above, this model led to stability. Cooperatives were able to export at high prices, establish themselves, and make investments that in turn contributed to higher quality coffee and higher incomes for associates. Since they served a niche market (Fair Trade) where there was little competition in the early years, this way of doing business worked comparatively well. Peruvian cooperatives buy dry coffee and classify it by size, shape, weight, color and sometimes cup quality (see section 6.2).

# 6. Analysis of Fair Trade coffee in Peru

In this part, the main findings of the empirical research are presented and discussed within the theoretical framework and status quo of (Fair Trade) coffee sector in Peru. The first section presents different types of Fair Trade represented in Peru, the second one discusses concrete impacts and advantages for stakeholders with a focus on the beginning of the chain. The third section analyzes similarities and differences to other markets because it plays an increasingly important role in coffee sector and the way it is structured. The following table (*Table 3*) gives an overview of all cooperatives included in the analysis. Of the ten cooperatives listed, I have spoken to at least one stakeholder in each case.

*Table 3: Overview of cooperatives included into analysis (Source: own arrangement of data)*

| **Name cooperative (foundation year)** | **Producers** | **Coffee production area per producer (average)** | **Production per year (2021)** | **Sales per certification** | **Type of trading partners** |
|---|---|---|---|---|---|
| Cooparm (1999) | 528 | 3,5 ha | 90 containers export | 70% FTO<br>25% organic<br>5% conventional | Importers, GEPA, supermarkets, roasters<br><br>Some long-lasting commercial relations |
| Sol & Café (2008) | 1250 | 3,2 ha | 118 containers export | 71% FTO<br>10% organic<br>10% FT<br>6% conventional<br>3% Rainforest | Importers, roasters, GEPA, supermarkets |
| Cenfrocafé (1999) | 3055 | 3 ha | 360 containers export | 37% FTO<br>60% organic<br>13% conventional | Importers, roasters, roasteries, distributers |
| APROCASSI (2010) | 572 | 2,5 ha | 87 containers export | | Importers, roasters, supermarkets, smaller roasteries |
| COOPAGRO (2021) | 506 | 2,5 ha | 51 containers, 28 of them export | 40% FTO<br>30% organic<br>30% conventional/UTZ | Importers, distributers |
| APROCAES (2017) | 270 | 3 ha | 34 containers, 7 of them export | 71% FTO<br>21% UTZ<br><br>rest Fairtrade, organic | National market: Norandino cooperative, traders; export: importers |
| Norcafé (2016) | 535 | 1,67 ha | 35 containers export | 77% FTO<br>14% specialty coffee & organic | Direct to roasteries, distributers |
| Amoju (2016) | 535 | 2,5 ha | 48 containers, 42 of them export | 35%% FTO<br>50% organic<br>15% Rainforest, UTZ | One coffee trader and roaster buys 80% of production, rest smaller roasteries, supermarkets |
| Origin Coffee Lab (2017) | 319 | 3 ha | 58 containers export | 36% specialty coffee<br>14% highest quality micro lots<br>50% organic | Roasteries, small traders |
| Norandino (1995) | 6637 (approx. 4000 of them produce coffee) | 1,4 ha | 320 containers export (also 1300 tons cacao, 1300 tons sugar | 70% FTO<br>13% organic<br>3% UTZ, Rainforest<br>14% conventional | Importers, GEPA, supermarkets, roasteries<br><br>Some long-lasting commercial relations |

## 6.1 Types of Fair Trade represented in Peru

Results from the interviews conducted show that all four types of Fair Trade defined by Jutta Kister can be found in Peru (Kister 2019: 196ff). Basically, type A is the most attractive type for cooperatives and producers since it means a direct and often long-term trade relationship at Fair Trade conditions. At the same time, it is limited in volume and in terms of scaling due to its nature. It is followed by type B that allows already established cooperatives and associations to sell larger quantities than in type A, but at good conditions.

Even though Kister's concept is very useful to understand different types of Fair Trade, it is not fully satisfactory for the analysis. Thus, four further key points are included in the analysis which are length of affiliation, strategic use of Fairtrade, market access, and contracts that undermine Fairtrade principles ("combos"). These factors have an influence on the share of sales on Fairtrade terms which, in turn, have a crucial influence on the impacts of Fair Trade on producers. The decisive factor for the impact of Fair Trade is the proportion of total production that is sold at Fair Trade prices, and how steady this is over the long term. Only then can all the projects really be implemented and have a sustainable effect (see section 3.2).

Long-established (founded 2015 and before[10]) cooperatives have all four types and long-lasting commercial relations. Some of them export 70% of their production at FTO price which is high above average which is 22% in Peru (Fairtrade International 2022a). Ruben and Fort attest a cumulative effect of the differential the longer a cooperative is affiliated (Ruben and Fort 2012: 578). Within five years of first certification, Fairtrade International wants "half of all certified coffee producers to be selling 50% of their production on Fairtrade terms within 5 years of initial certification" (FLO 2016: 10). Cooperatives founded after 2015 have more commercial relations of type B, C and D. It is markable that in the very first years of certification, cooperatives have only type C and D. It depends on various factors if the certifications can lead to Fair Trade value chains of type A and B: successful management of the cooperative in terms of technical, social and financial aspects. This in turn is conditioned by derivative market price of coffee during years and window of opportunity: The cooperative has to answer the demand according to price, amount, product quality and condition, which is easier through contacts to other cooperatives. These parameters must match with the national

[10] Cooperatives describe themselves being in the starting phase for about five years. Since the pandemic posed major challenges to producer organizations and hindered and slowed down processes like upgrading, this period is not included.

and international market (Interviews 1; 6; 8; 9; 10; 12; 13; 14; 15; 16). It is thus a multi-causal relationship whether, when and to what extend Fairtrade affiliation empowers small-scale producers and leads to fairer trading practices (ibid.). Several studies prove that perceived benefits are strongly correlated to the length of cooperative certification and participation in Fair Trade market (Ruben and Fort 2012; Arnould et al. 2009; Ruben et al. 2009).

All cooperatives have several certifications for greater market access. During the starting period of commercialization cooperatives make mostly usage of certifications Fairtrade, organic, UTZ (Interviews 1; 10; 11; 12; 14; 15). In the first years, national sales to larger and older cooperatives take place and make up more volume than direct exports. All exports undertaken have Free On Board (FOB) Origin status and are FOB prices[11]. The processing is undertaken in their installations (Interviews 1; 5; 8; 10; 11; 12; 14).

Territorial and network embeddedness are crucial and determine the structure and evolution of a GPN (Gereffi et al. 2005: 82; Henderson et al. 2002: 453). They sometimes overlap and enable an environment for successful operation. The image of Peruvian Fair Trade coffee cooperatives is important and helps new associations and cooperatives in their rise. Some long-established cooperatives became famous and stable and marked the positive image for Peru's Fair Trade coffee. They opened the door for many other associations and cooperatives and also for the development of specialty coffee (Interview 1, 10). Cooperatives and associations often get contacts for new exportations through other cooperatives who cannot fulfil a request and references another cooperative. The degree of national networking is also significant, as cooperativism among the cooperatives who were interviewed goes beyond the individual cooperative and occurs at the level between cooperatives (Interviews 1; 10; 11; 12; 13; 14; 15).

So, managers feel also responsible for the image of Peruvian cooperatives in general. Many managers mentioned that the hardest competition is not nationally but internationally (ibid.). To find new customers, managers also travel to trade fairs and get in contact with buyers. Trade fairs help in networking and presenting the organization.

For both, producer and buyer, Fairtrade is like an insurance. For the producer, mostly in terms of the minimum price. In bad times of market juncture when the derivative market

[11] FOB Origin means that the buyer assumes all risks once the product is shipped. Transport and insurance costs during shipping are paid by the buyer. Cooperatives cover transportation and insurance costs until the coffee reaches the port from where it is exported. This is why FOB prices published by roasters do not say much about farm gate prices and how much the producers get paid.

price is low, it can make a huge difference to have the Fairtrade certification because price does not fall far below production costs (Interview 12). On the other side, Fairtrade is a security factor for importers or traders who are the main market/customers for cooperatives. The importers and traders ask for all certifications: Fairtrade, organic, UTZ (Practices), if possible. The customer asks for the certificates to minimize the own risk. If the coffee arrives and the quality is bad, the certificate facilitates the reselling to someone who needs coffee because of a certain certificate (Interview 14). Several managers mention the importance of reliability from their side: *"I cannot sell anything I do not have"* (Interview 12). A basis for success is the fulfillment of the agreement. If the sample was of a certain quality, the goods must be of the same quality. Contracts have to be fulfilled and punctuality is very important. They convince through quality and compliance (Interviews 2; 15; 9). If a cooperative cannot comply with contracts or if there is a problem, the customer will probably never be interested in buying again (Interviews 2; 9).

Managers describe that customers who buy Fair Trade Organic[12] (FTO) or Fair Trade (FT) in many cases are not interested in where and by whom the product was produced. They set the conditions and want the cooperative to fulfill them. They do not want to pay more and even negotiate so-called "combos". "Combo" is like a discount system in green coffee purchasing and it is widely used (Interviews 1; 5; 7; 8; 9; 10; 11; 12; 13; 14; 15). It undermines and perverts the Fairtrade system and buries the mindset responsibility of green coffee traders and buyers (see section 6.2.1).

There are other customers who are much more conscious. They are looking for a very transparent work structure and they want to reach the producer. After some years, cooperatives have established long-lasting commercial relationships. Some cooperatives have strategic clients who buy coffee since 2010 or 2014 as type A (Interview 8). Cooperative's staff and associates travel to consumption countries, fairs, exhibitions, get visits from importers/customers. This also influences open or fixed contracts and, generally, their basis for negotiation (e.g., shown during pandemic when a lot of contracts could not be fulfilled on time due to shortage of containers). Some customers pay even more than FTO or contribute with machines or funds (Interviews 8; 12). Long-established cooperatives received both financial and technical support for the foundation and further development from international NGOs. They could make use of networks and got access to the market more

[12] Fair Trade Organic (FTO) price is 1.90 USD/lb (1.4 (Fairtrade minimum price) + 0.2 (Fairtrade premium) + 0.3 (organic differential).

easily through these established contacts in Global North (Interviews 1; 5; 8; 9).

Retailers from Switzerland and Germany attest that they have a balance between big companies and small organizations where to buy the coffee (Interview 17). If they would buy only from small cooperatives and they cannot fulfill their contract, they have a problem to comply with their own contract. They buy big volumes the small cooperatives cannot offer. The smaller the cooperative's volumes, the higher the risk that they cannot complete the containers and fulfill the contracts. This restrains a lot in the access to global markets which is not what Fair Trade's vision was: to support and include the most vulnerable ones (Interviews 9; 10; 13; 14). *"If you do a good job, they come to you"* (Interview 13). It must be noted that the coffee market calls for a homogenous product at any time. Standardization of market on big scale is clashing with vision of Fair Trade and sustainable farming fundamentally.

Despite the existence of different types of Fair Trade and the fact that not all Fair Trade is the same, many interviewees see positive elements in Fair Trade, even if impacts are weakened by low quantities of production actually sold at Fairtrade conditions. Several managers and associates interviewed mention that one good aspect of Fairtrade is the criteria to invest at least 25% into technical or organizational strengthening. Some call it a lifestyle (Interview 1) and describe that without the Fairtrade differential there would be no resources to do trainings and to have knowledge spillover for producers and social upgrading which is happening (Barrientos et al. 2011: 324; Interview 1). In this sense cooperatives prove that an integration in the value chain is taking place. Although producers generally feel as last members of the chain, cooperatives work in a change of vocabulary also: they are not poor, and they are no reactive and passive beneficiaries but underline their associational power (Interview 1; Selwyn 2013). Promotion of transparency in both directions is essential for Fair Trade (Interview 10; see more detailed in section 6.2) Managers and producers confirmed a significant improve of quality which could only be achieved through the premium because technical staff could be financed through Fair Trade and organic premium (Interviews 1; 10; 11). The cooperatives founded in 90s and 2000s took part in many workshops in the first years after their founding. Representatives travelled to Colombia and Central America to improve coffee quality and to implement some systems for associate's farms (Interview 5).

## 6.2 Impacts for different stakeholders

As described in section 3.5, it is not possible to measure causal effects of Fair Trade. Nevertheless, in the following, impacts and advantages for different stakeholders that are associated with Fair Trade will be analyzed based on in the interviews conducted and that, according to their assessment, can only be realized through Fair Trade. Based on Ruben and Fort (2012) who focus on (i) direct effects of Fair-Trade standards and (ii) indirect implications of Fair Trade supply chain relationships, impacts are discussed with a focus on producers and cooperatives (Ruben and Fort 2012: 571). Coffee production, farm management, labor conditions and prices, household income and expenditure count as direct effects (i). Quality upgrading, upgrading in the chain, contract compliance, access to finance, organizational participation, gender roles, loyalty count as indirect implications (ii) (Ruben and Fort 2012: 571). *Table 4* gives an overview of direct and indirect effects.

*Table 4: Direct and indirect effects of Fair Trade*

| **Direct effects** | **Indirect effects** |
|---|---|
| Price stability | Quality upgrading |
| Household income and expenditure | Upgrading in the chain |
| Coffee production | Contract compliance and loyalty |
| Farm management | Access to finance |
| Labor conditions | Organizational participation |
| | Gender roles |
| | Ecosystem services |
| | Health, education, migration |

Source: Adapted by author based on Ruben and Fort 2012, p. 571-578

Since all Fairtrade-certified organizations interviewed are cooperatives, impacts and benefits of being associated in a cooperative and benefiting from Fair Trade are closely related. Since the cooperative is the authority that provides stability between Fairtrade and producers, the following section will focus on the effects that result from the participation of a cooperative. However, these are closely linked to the effects of Fair Trade. The services that a cooperative provides are also made possible through the Fairtrade premium.  A producer alone cannot obtain Fairtrade certification, he*she needs a cooperative.

First, it should be noted that impacts and advantages for different stakeholders are closely related to the nature of the Fair-Trade chain: distribution of power, intention of the transaction and design of the relationships (type A to D) matter (Kister 2019: 270). On the one hand, the premium provides scope for investment and for implementation of organizational development plan. Through key areas of governance, environment, associates, families and quality control organizational needs are analyzed so that the premium is invested where it can contribute to improvements. On the other hand, economic upgrading does not lead to social upgrading automatically, but it rather depends on the level of coherence of the organization to comply with the aims of Fairtrade in order to reach the producer (Interviews 10; 16; Mendez et al. 2010; Bacon 2005, Weber 2011, Beuchelt and Zeller 2011).

### 6.2.1 Direct effects of Fair Trade

There are five key aspects which are considered as direct effects of Fair Trade that are price stability, household income and expenditure, coffee production and farm management as well as labor conditions. All of them are achieved mainly through the Fairtrade premium. Because through Fairtrade premium cooperatives and associations can raise their buying price for dry coffee and are able to compete with big coffee traders and intermediaries. The premium allows organizations to do compensatory pricing during one season and to provide some price stability (Interviews 5; 13). This represents a direct effect (i) of Fairtrade standards: The proportion of coffee sold at FTO price is crucial in this regard. The more FTO contracts are concluded, the more stable and higher the cooperative can maintain its purchase price. This in turn assures the cooperative of high-quality coffees and the assurance that members will constantly sell all of their harvest to the cooperative and not sell to others who may have more attractive prices. For producers, commitment of the cooperative to buy the whole harvest if it meets basic quality parameters leads to planning security. As described in 6.1., compliance from all stakeholders is therefore fundamental to the impact of Fair Trade.

As mentioned before, “combos” are widely used in green coffee purchasing. It is a practice that undermines and perverts the Fair Trade system and its principles and it illustrates the price-setting behavior and of firms and their governance (Interviews 1; 5; 7; 8; 9; 10; 11; 12; 13; 14; 15). “Combos” work like the following: There are two sales components from which one is certified, and one is not certified. That means that the second component (with conventional coffee) is being sold for often less than the derivative market price. This in turn means that the average of the two coffees is then often so low that the Fairtrade premium is gone again. An example shows how it works in practice: the buyer asks for six containers[13] of green coffee. He suggests a contract consisting of three containers at FTO price and three containers at derivative market price or even below that. Especially in times of low derivative market prices, combos are increasingly used, as the difference between derivative market price and Fairtrade minimum price amounts to 40%. Through combo contracts, buyers or traders reduce the price in addition to the already low derivative market price. The oversupply of FT coffee is so drastic that many producers are happy to sell their coffee and not be stuck with it. It offers an opportunity to step out of the niche into the mainstream market, but this literally has its costs.

The interviewed cooperatives have different strategies concerning the combos. Some cooperatives sell not organic-certified coffee from their own producers since there is a transition phase for organic certified coffee. Others who have are well positioned in the market buy conventional coffee on the national market. No traceability is required for conventional coffee because the value chain of conventional coffee is not transparent. Buying the coffee from third parties is cheaper than sell own coffee for less than the cost of production. All cooperatives interviewed confirmed that they fulfill requests for combos to create commercial relationships although they do not profit from them (Interviews 1; 5; 7; 8; 9; 10; 11; 12; 13; 14; 15). Another component of speculation is the conclusion of contracts as either open or fixed contracts. An open contract sets the price on shipping date, a fixed contract on the contract concluding day (Interview 12). Even despite certification, cooperatives cannot avoid such negotiations. In this respect of market knowledge, there is a great imbalance of information between small and large cooperatives and between cooperatives and large traders. “Combos” reveal the governance of firm actors over the coffee value chain, whether certified or not, and highlights limitations of Fair Trade.

Interviewees mention the price as main benefit of being associate in a cooperative. Cooperatives have been price leaders and many producers and intermediaries check the price of the biggest cooperatives (see section 5.2; Interview 5). Generally, all cooperative associates are highly dependent on coffee since coffee is their highest and often their only income. Through association they seek a safe marketplace and higher prices (Interviews 1; 3; 4; 6). Compensatory pricing during one season makes it possible to pay producers a price which covers production costs for organic Fair-Trade coffee. Tucker states: “*As prices fall,*

[13] One container normally ships 19-20 tons of green coffee.

*producers usually cut back on production, leading to lower supplies. When supplies fall, prices rise, and producers plant more coffee, which eventually increases global supply above what can be sold, and the cycle repeats*" (Tucker 2017: 114). Through price stability, the vicious cycle can be broken. Many describe Fairtrade as an insurance, especially in times of low derivative market price (Interview 13). One important benefit of the premium used in all cooperatives interviewed is therefore its calculation in purchasing price. The local market price at which the producers sell their coffee is more stable and, in many cases, higher than current derivative market price. All cooperatives have a similar system to categorize physical quality of coffee and remuneration. Associates who bring their dry coffee get cash immediately. In some cases, cup quality is remunerated (see section 6.2.2). Two cooperatives pay a reimbursement to producers at the end of the harvesting season (Interviews 5; 10). Depending on the cooperative and contracts sold at FTO price, it has been between 0,1$ and 0,3$ per kilo in 2021. In some cases, the premium represents 15-20% of annual income. Reimbursement is paid intentionally in January or February when there is no coffee to sell and most of the producers have no income. At this time coffee plants should be fertilized and if not bought before, the reimbursement is needed to buy fertilizers. What is more, the school year starts in January, so many families have additional costs for writing materials (Interviews 5; 10).

Several studies show that Fairtrade strengthened producer organization and improved their quality of life: they gain higher incomes, have better access to credit facilities and funds, take part in trainings and are more likely to use environmentally sustainable techniques (Dragusanu and Nunn 2018; Ruben and Fort 2012; Méndez et al. 2010; Jaffee 2007; Taylor and Raynolds 2005; Bacon 2005; Raynolds et al. 2004). Fairtrade producers are more likely to take risks than those who are not certified because minimum prices mean a greater security. This leads to more investment in working and living installations and in turn has positive welfare effects in the long term (Ruben and Fort 2012: 578; Ndongo and Leye 2014: 115). Recent studies prove higher resilience of Fair-Trade producers in crises like Covid19 pandemic, climate change and financial crisis (Günther et al. 2022; Mauthofer and Santos 2022). Expansion of production and upgrading of coffee quality leads furthermore to improved living conditions like better food consumption and reduced child mortality (Becchetti and Constantino 2008). "Part of this is due to a transfer of incomes from intermediaries whose incomes decrease due to Fair Trade" (Dragusanu and Nunn 2018: 4). Since intermediaries' incomes are higher than those of farmers, it can be stated that Fair Trade leads to more integrated value chains and transfers rents from higher-income intermediaries to lower-income producers (Dragusanu and Nunn 2018: 5; Ramos et al. 2019: 394; Interview 7). This is mostly because producers create cooperatives that perform the activities intermediaries perform normally (Dragusanu and Nunn 2018: 6). Changes of power balances between upstream and downstream supply chains can therefore be determined.

### 6.2.2 Indirect implications of Fair Trade in professional development

Indirect implications of Fair Trade (ii) can be seen in professional development that is pursued: As two key elements, quality upgrading and upgrading in the chain lead to income diversification which has economic, ecological, and social implications. Capacity-building for producers and cooperative's employees are further integral parts. Thirdly, access to finance is another significant effect of Fair Trade which in turn is closely linked to other key elements as it often enables and facilitates different forms of upgrading. Functional upgrading which means a higher value-added function or level in the chain is reflected by the presence of coffee houses on site (see section 6.2.3). Interchain upgrading is represented through the shift of supplies to another GPN, as it is the case in type A of Fair Trade as well as direct trade/specialty coffee. These forms of upgrading are strongly favored by the organizational form of cooperatives. They can be considered as facilitators of the overall success of Fair Trade as this can only be achieves as a community effort.

First, all cooperatives interviewed employ agronomists or agricultural engineers who give technical support in agricultural practices like growing, harvesting, organic fertilizing, further processing of coffee (fermentation and drying), new varieties etc.. Agroforestry systems are improved and prove the holistic and integrated approach of Fairtrade: This leads to more ecological sustainability and diversification of crops (ecosystem services). Since a coffee export-only economy is very susceptible to volatility it is not favorable for a sustainable development (Kister 2019: 209). It represents a dependency relationship because, despite premium, fluctuations in the price of coffee cannot be cushioned (Interviews 3; 5; 8; 14). As an interviewee mentioned: *"It is not easy to diversify since there is not much money left to try out new things if it may not lead to success"* (Interview 5). One strategy that cooperatives pursue is therefore to use the premium for income diversification training. Three former associations were even converted into cooperatives to be legally able to export different products (Interviews 1; 4; 5; 8). Two cooperatives produce and export cacao. Many producers raise fishes or grow other agricultural commodities such as pineapple, orange, passion fruit, avocado, cassava, peanut to sell them on the local market (Interviews 3; 5; 8; 11; 14). Some producers with lots of land raise cattle to sell meat (Interview 11). Cooperatives implement on-farm best practices like demonstrative farms (Interviews 1; 11; 12; 13). There are projects financed by Ministry of Agricultural or international cooperation which support small scale farmers diversify their incomes. Some cooperatives assist in applying for these projects, others work on it with their own personnel resources. The overall goal is food security and food sovereignty (Interview 12).

Secondly, another crucial investment of premium is in human resources and administration: Training and capacity building of staff, board and committees secures efficiency. Some interviewees mention that savings are sometimes made here because successes only become apparent later and are underestimated (Interviews 5; 8; 10; 12). In some cooperatives there are or have been trainings in business practices. Cooperative's representatives take part in trainings about costs and logistics and transfer gained knowledge to their sector. In the past, these trainings were sometimes offered by CLAC (Interview 16). Several interviewed people describe a social upgrading in form of learning how the market works (Interviews 2; 3; 5; 10; 12).

All cooperatives invest in facilities and infrastructure, for example vehicles to transport the coffee, motorcycles to visit remotely living associates, processing facilities like hulling machine, equipment for quality control laboratory (Interviews 1; 2; 5; 8; 10; 12). Two cooperatives interviewed breed seedlings and two interviewed cooperatives have their own fertilizer plant (Interviews 1; 11). Some cooperatives invest in community services as roads, electricity, water, education, and health care from which also other people benefit. The infrastructure has improved a lot. Many associates remember themselves or their fathers carry the coffee on animals for one day to the central office of the cooperative. People describe greater purchase power having an impact on the region (Interviews 5; 7; Dragusanu and Nunn 2018: 1-2). Data shows that monetary poverty decreased significantly from 2012 to 2021 in the Northern part of Peru (Cámara de café y cacao 2023). Consequently, spillover effects can be identified that have positive impacts on people in the region and goes beyond producers.

The third central use of premium and aspect of indirect implication (ii) is that certified cooperatives and associations work on the topic of access to credits and loans: some have a system to leave some contribution and qualify to borrow money from the cooperative. In most cases associates leave coffee as guarantee. Apart from loans, associates have better access to buy fertilizer and material to build wet tanks, drying beds, solar tents, etc. (Interviews 2; 5; 12). All cooperatives interviewed support associates and their family members in case of illness or death. Every associate I have talked to is convinced of benefits to be associate in the cooperative although participation varies a lot and there are hierarchies and challenges within cooperatives interviewed (see section 6.4).

Coffee quality improved a lot since 2010. Before cooperatives got certifications, people cultivated coffee unsystematically, in poor quality, and they sold their coffee to anyone who offered them money (Interview 15). Through technical support, cultivation and processing has been systematized. Fertilizing, trimming of plants, selective harvest, washing, fermenting and drying is applied much more professionally. After coffee rust disease caused great damage in Peru in 2011 and many producers lost large parts of their plantings, varieties that are more resilient and adapted to climatic conditions were planted (Interview 9). Interviewed people also mention that one reason why people associate is because they want to improve quality (Interviews 11; 12; 13). Cooperatives were the first who started with quality analysis (Interviews 5; 6; 8). In in-house quality laboratories, the quality of the coffee can be precisely determined. Because of this, coffee can be placed on the market in a more targeted way (Kister 2019: 293; Gibbon et al. 2008: 315-338). It can therefore be argued that time-consuming and costly expenditures for certifications for Fair Trade are worthwhile because they make cooperatives more powerful in negotiations even if they take place in market areas where certification is not remunerated (Kister 2019: 291). The traceability demanded for Fairtrade and organic certified coffee means more costs for cooperatives, but it pays off: the products that do not go to the actual target market (types A to D FTO) can be placed well on the conventional market and traded more powerfully and confidently (Kister 2019: 289; 293). This can be called an empowerment and strengthens their position as it is a good example for economic development through trade and not aid. People produce high quality coffee and want an adequate remuneration for it, no donations. Producers say that the quality and certification provide more stable income and works like an insurance if derivative market price is low (Interview 10; Ruben and Fort 2012: 578). Similarly, widespread certification raises the local market price in Peru. Local traders do not pay attention to certification, but in order to be offered coffee at all, they buy non-certified coffee at a slightly higher price and cooperative’s prices are considered as regional floor price. Thus, producers indirectly benefit from Fair Trade and organic, which themselves are not certified at all (Interview 10, 12;

Ruben and Fort 2012: 578). Studies attest some small spill-over effects for people who live in the districts with Fair Trade certified coffee mills, even if they do not work in coffee industry (Dragusanu and Nunn 2018: 1-2; Ruben and Fort 2012: 578).

The approach regarding the evaluation of physical quality is similar or the same in all cooperatives interviewed, whereas that regarding cup quality differs. For the physical quality, parameters like humidity and defects of first and second grade are analyzed. For that, random samples of 200g are taken and analyzed to determine how much of the total weight is of exportable quality. Of one kilogram of coffee with 12% moisture content, around 750 grams of exportable green coffee remain on average. For every 100 grams of better yield, the farmers receive about $0.02 more. Depending on the physical quality of the coffee, some producers receive significantly more money. This compensation is an incentive and has been a clear differentiation from other coffee buyers since the founding of the cooperatives. The economic and social criteria of Fairtrade enable the cooperatives to buy and export higher quality coffee compared to other traders (Interviews 5; 6; 8; 10).

Regarding cup quality, the systems in the cooperatives differ. Some reward better cup quality according to the Specialty Coffee Association (SCA) system and pay a little more per point. However, since most cooperatives do not (yet) have a fixed position in the specialty coffee segment and they cannot be sure of passing on the extra costs to the buyer, this does not take place across the board (Interviews 10; 11; 13; 14). In some cases, internal competitions take place and producers with very high cup quality receive direct contracts with customers, so-called micro lots. Logistics are organized by the cooperative. However, this development is still very much in its infancy.

### 6.2.3 Indirect implications of Fair Trade for reinforcement of cooperatives and status

There are several indirect implications of Fair Trade on cooperatives pursuing their reinforcement. These are organizational participation, contract compliance and loyalty, gender roles and health, education and migration. All of them are related to the aforementioned effects, especially regarding upgrading.

First, it can be summarized that economists were right when they debated how coffee producers could survive and agreed that low-quality-coffee needs to be reduced to ensure the future of coffee (Tucker 2017: 113). This often goes hand in hand with social upgrading, more knowledge etc. Promotion of transparency is not only done in the upstream of the value chain but also within the cooperative. Cooperatives have their laboratories and in many cooperatives, it is usual that the producer can enter the laboratory, talk to the cupper and taste their own coffee. He*she can understand why the cup quality is rated this way (Interviews 1; 5; 6; 10; 14). The higher income is also reflected in the fact that producers do not drink second quality coffee which is not exportable as it was the case before. Nowadays, most producers drink the same coffee they prepare for export which is another status appreciation (Interviews 5; 8). Also, own "marketing of the coffee on the domestic market and own experiments with roasting, packaging and gastronomic offers prove this self-empowerment and upgrading" (Kister 2019: 293). These forms of upgrading can be found in Amazonas and Cajamarca departments where a coffee drinking culture is gradually developing in the wider society (Cámara de Café y Cacao 2023b). Two cooperatives interviewed have coffee shops in cities like Lima, Chiclayo, Chachapoyas and Jaén and sell their own brands in supermarkets (Interviews 1; 4; 6; 11). They do more value-adding activities (Kister 2019: 294). So, there are spillover effects beyond producers of different nature for the region. There is functional and interchain upgrading. Nevertheless, the extent is still limited, because only about 5% of the coffee produced goes to the national market or is processed in the company's own coffee house (Interviews 1; 4; 6; 11).

Nevertheless, cooperatives are much too small to compete in the negotiations for the large volumes. They are relatively safe in their niche from the volatile characteristics of world trade as the niche offers partial shelter. But the niche represents a too small market to operate in alone. All cooperatives emphasize the relevance of the long-term nature of trade relations (type A) since they form the basis for development opportunities described like livelihood upgrading, acquirement of knowledge, expansion of network and achievement of higher prices (Kister 2019: 291). Trust is an important component here. It secures trade relations in all nodes between producers up to the importing lead company. For the importers, it secures the goods; for the producers, it guarantees planning security. In most cooperatives, enrolment fee was and is still high to make sure that associates feel responsible and committed to the organization. It ensures that associates sell their coffee to the cooperative and in exchange, being associate pays off in terms of economic and social upgrading (Interviews 2; 3; 4; 5; 10). In highly deregulated environments, the factors of long-term partnership and trust-building are guarantors of stable and secure trade relations (Kister 2019: 293). In some cases, payments for an additional premium, funds and pre-financing is part of this long-term partnership. Sometimes, these additional payments are project-based in order to enable better marketing and storytelling (Interview 12).

Principles of cooperativsm could be seen as a counter-hegemonic act in a neoliberal capitalistic world order and correspond to the visions of the beginnings of the Fair Trade movement. As mentioned before, in the region the culture and principles of cooperativism “the same applies for all” is embedded moreover one cooperative (Interviews 7; 8, see sections 6.1 and 5.2). They support and reference each other, establish contacts. This leads to a very stable network and trustful environment. Cooperatives and associations do not see each other as competitors but rather the big international coffee distributors. Studies such as those by Kurjańska (2015) and Sirdey and Lallau (2020) show that producers or cooperatives have to use their social capital, but that this also increases when one is in the Fairtrade network (Kurjánska 2015: 309). Social capital includes better access to information, insider knowledge and contacts as well as group membership (Interviews 2; 7; 8; 12). But it can also be a problem: if responsibility and liability is distributed among many people and there is more trust than control, then the system is vulnerable to corruption. Three cooperatives interviewed have had profound problem to near failure (Interviews 1; 3; 4; 10). Cooperatives have a board of directors who are democratically elected and represent the different sections of the cooperative. Generally, there is a great imbalance and hierarchy within the cooperatives which is significantly influenced by the level of education.

Age plays a major role here, as today's 70-year-olds have often not completed high school. The more remote the cooperative, the higher the age average and the worse is telecommunication, internet reception as well as roads. This influences knowledge exchange, suggestions from outside and openness for change a lot (Interviews 1; 5; 6; 10). In general, producers do not have a good financial management attitude because they lack education. Most people invest most of their income in education of their children. They use the money for parties and celebrations, but a lot of them do not invest in improvement of processing installations to make work easier, more efficient and to renovate their farms. Cooperatives could work this topic more, but since prioritization is determined by the general assembly, the majority decides. Attitude and mentality are sometimes slowing down processes of change, for example to apply for advertised projects of the of the government (ibid.). Here, a difference in age can be detested: younger producers are more open to changes in their approach, and they show a more entrepreneurial attitude (Rotaru et al. 2014). “*A lot of producers do not know their production cost, so they depend on others to calculate a decent* *price and to commercialize the coffee*" (Interviews 5; 7; 8). The president of one cooperative summarizes as following:

> *"If there is a loyal administration of the cooperative, it is possible for cooperatives to compete with private companies, it is just the corruption which is a bit easier in cooperatives when many are accountable and if many don't know. So, the level of education is important!"* (Interview 2).

There are cooperatives and organizations in Peru that are really interested in an upgrading of the whole region and there are some leaders who fight for a better good for all members of their cooperative (Interview 12). This is reflected in the way the premium is used and how control bodies have been established. Real empowerment means training, education, and participation (Interviews 1; 2; 10; 12; 15).

Every cooperative has a women's committee and is working on gender topics. Resulting, women's share of associates has increased rapidly to 25% within the last years and is still rising. Income diversification trainings and workshops are held with priority for women. Interestingly, many women have already kept records of income and expenditure beforehand. Also, in board of directors, they participate dedicatedly, even if men continue to hold the most powerful positions (Interviews 5; 10; 14).

For the associates, it is sometimes hard or impossible to understand every decision the management takes. Cooperativism and entrepreneurship is sometimes conflicting and difficult to reconcile. Producers are owners and associates (customers) at the same time. They can decide a lot, but they are not informed equally because of hierarchy of knowledge within the cooperative. This makes it difficult to decide about investment, staff decisions etc., also because (democratic) cooperatives can be a sluggish structure. People have seen cooperatives risen and fall (Interviews 1; 3; 4; 10). They mistrust and want to observe. They want control over the part of the chain they think they can oversee. The fundamental is to have a management you can trust in and that is convinced of the good. If they are not, cooperatives become an attraction point and associates, representatives or the directive board seek the personal profit. There are several examples where the cooperative's resources were mismanaged (Interview 10).

> *"And there is not, let's say, something that guarantees sustainability as a cooperative because there is no one who really cares for it as their own. It has to do with the culture in Peru. We are used to corruption. There are many examples of corruption.*

*And for cooperatives applies in particular: what belongs to everyone, belongs to no one and no one really cares for it as he*she would if it would be theirs."* (Interview 10)

As one interviewee puts it in a nutshell: *"It is easy to steal coffee. Very easy. So, you need staff you can trust in!"* (Interview 8). At the same time, it is essential to invest in staff. Cooperatives have to find a way to pay adequately to their staff, so they stay after trainings and do not take the knowledge and work for someone else which was the problem in one cooperative that is going through a crisis (Interview 12). But you have to make sure the staff takes their job seriously: An external advisor reports that staff does no work efficiently sometimes. In this sense, technical assistance is key but can also limit productivity, quality and sustainability (Interviews 4; 9). Sometimes the advises are not adapted locally: producers in lower regions face other challenges than the ones who grow their coffee in higher areas. In addition, a lot of cooperatives increase in associates and therefore, in export, but not in productivity of each farmer. This is also because fertilizers are not used systematically although fertilization is investment in coffee quality and sustainability (Ramos et al. 2019: 394; Interviews 9; 10). "The most efficient, cheap and sustainable fertilizer is the coffee cherry pulp mixed with organic waste and animal excrement, all of which is already naturally available on the farm. You save money and you are not dependent on supply shortages of bought fertilizer" (Interview 9).

Nowadays, transparency begins with accepting associates (Interview 13). There is a high social control: to become a member, the delegate of the village must recommend you. Associates say that there were times when you only had to know the president of a cooperative to become associate. An associate who lives very remotely concludes about the future of cooperatives:

*"If a cooperative has got associates like us, it can survive. We are very committed; we are solidary, and we do not let it go down. We are very reliable; we are united, and we only accept associates like this. Not everyone who grows coffee can join. The cooperative is like a family. For example, if you are sick, if there is a case of death, the cooperative is there for you and supports you. No intermediary or company that buys your coffee would ever do it because they do not care for the people behind the coffee, they only care for their own profit."* (Interview 3)

Sirdey and Lallau (2020) also come to this conclusion that Fairtrade certification and belonging to a cooperative is empowering.

Through Fair Trade, the connection between producer and consumer is shortened and more direct. Some buyers from type A come to visit the cooperative and do field visits. This leads to a mutual acquaintance and exchange of information (Gibbon et al. 2008: 315-338; see section 6.4.1). The producer gets a face and the customer gets to know the hard reality of coffee production. Producers experience it as a great honor that customers make the journey to them, and it fills coffee producers with pride that their product brings people from so far away to the village (Interviews 3; 8; 10). This is especially remarkable in the light of the fact that most coffee producers are not proud of their profession and, for example, wish for a different occupation for their children in the future. The direct trade relationship (type A and B) can thus contribute to an upgrading of status taking place (Interviews 4; 5; 6). Associates feel as part of coffee GPN and feel that everyone is important in this chain (Interviews 5; 12). In some cases, this kind of empowerment goes so far that producers themselves go to international coffee fairs and negotiate with buyers (Interviews 12; 14). In other cases, some cooperative representatives follow the invitation of a customer. Cooperatives with long-standing relationships of type A and B with importing organizations that are fully embedded in Fair Trade, have been able to increase their bargaining power and realize development opportunities such as upgrading in form of operational infrastructure, quality development, branding, certification as well as environmental, gender and development policies (Kister 2019: 284; 289).

None of the cooperative I have interviewed ever questioned to give up on Fairtrade certification which indicates that benefits are greater than costs.

## 6.3 Similarities and differences of Fair Trade to other markets

As described in section 4.4, there are several voluntary sustainability standards and corresponding markets for coffee. Conventional, organic and specialty coffee are worth a closer look in this respect because they represent those that have the largest intersection with Fair Trade coffee and fluctuate within the buyer-driven coffee GPN: The same coffee beans in the cooperative sample are sometimes sold as conventional, sometimes as organic, sometimes as Fair Trade, or sometimes as specialty coffee.

### 6.3.1 Conventional market

Consumer-producer relationship is only common in alternative production networks. It is direct, fair and traceable in contrast to the mainstream market, where products are standardized and homogenized and there is no contact or knowledge about producers, working methods and origin. Alternative trade and production networks emphasize re-embedding of goods in natural environment, that means in a social, cultural, economic, geographical, ecological context. Embeddedness and re-embedding are aims of Fair Trade to promote short chains and direct relationship between producers and consumers (Kister 2019: 219; Marsden et al. 2000: 425; Gugerell et al. 2022: 202). Transparency and traceability are essential in alternative production networks but not demanded in the conventional market. They are also costly, mostly in terms of transaction costs, which is why there is almost neither the one nor the other (Interview 10). Despite certification, purchasing practices like combos diminish traceability and transparency (see section 6.1).

Distribution of power in involvement in types C and D of Fair Trade value chains is very similar to conventional production network: actors are spatially distributed and the globalized industrialized system takes over the Fair Trade systems: producers become or rather remain suppliers of raw materials, which are needed in the system at short notice. Suppliers are endowed with little negotiating leeway and can be exchanged for other producers at any time. Improved quality of coffee increases the bargaining power of certified producers and cooperatives. Through their knowledge, they stand out of the conventional market and strengthen their position (Kister 2019: 289; 291). The rarity of the commodity reduces potential competition, but powerful players at the end of the chain still have the power because they have the brand (Kister 2019: 294).

Furthermore, conventional coffee has environmental impacts: There are no or only few specifications regarding pesticides and fertilizers, and coffee is often grown in monocultures. These firstly drive deforestation and forest degradation, and secondly have a greater impact on the ecosystem and biodiversity. When coffee is grown in an agroforestry system, the ecosystem is more balanced and human health is less threatened (Interviews 5; 9; 10).

### 6.3.2 Organic

Organic coffee certification promotes restoring, maintaining and enhancing ecological harmony. It aims to enhance natural soil activity using only a minimal amount of inputs not originating on the farm and it prohibits agrochemicals that are synthetically produced. Monitoring is executed by third-party certification agencies affiliated with International Federation of Organic Agriculture Movements (IFOAM). Accredited certification agencies monitor organic standards on production, processing, and handling (Giovannuccia and Ponte 2005: 287).

In Peru, Biolatina and Ecocert are the most important certification agencies. 28% of coffee farmland is organic certified and makes Peru to the leader of organically produced coffee in the world (Junta nacional del café 2022a). Many producers grow coffee traditionally as mixed-crop and have always produced ecologically. The ground is fertile and producers are aware of the value and the importance to conserve it for future generations (Interviews 3; 4; section 6.4.1). They are convinced of producing high quality food with low environmental impact enhancing more biodiversity (European Commission 2023a).

Organic certification was done for higher income and better market access. The organic differential is 30 USD/lb, thus higher than Fairtrade 20 (USD/lb). Organic production requires more manually intensive labor, for example due to physical weeding. Productivity is lower because less fertilizers are used, which leads to lower productivity (Interviews 3; 4; 5; 11; Fess and Benevito 2018: 15).  As a market access strategy, organic is a valuable factor since the probability is lower to sell it as conventional as it is the case with Fairtrade certificate. The market for organic coffee is increasing (Ramos et al. 2019: 400).

It can be concluded that the combination of organic and Fairtrade certification is very successful (Ndongo and Leye 2014: 114; Kurjańska 2015: 308-310; Ruben and Fort 2012: 578; Interviews 12; 13; 14). It increases the sale of products at the minimum price plus differential (FTO) and even above (Sirdey and Lallau 2020: 167). A combination of Fairtrade and organic certification and a good network can, under certain conditions, lead to such an increase in quality and productivity and pave the way towards specialty coffees production. These are often priced 200% higher than the Fairtrade Organic (FTO) price and open up direct trade relations and real partnership at eye level (Interview 12; see section 6.3.3). Peru is relatively emerging in this area in terms of particularly high quality, but it is a small niche that has also been little studied due to its novelty (Junta Nacional del Café 2021).

### 6.3.3 Specialty coffee

There have been three coffee waves: The first wave of coffee spread coffee consumption and was a driver for the expansion of production from 1800s to 1960s. During the second wave, coffee shops emerged and highlighted the social experience of drinking coffee (1960s-late 1990s/early 2000s). Quality got important and let to the third wave around 2000 where the commodity coffee is rather an artisanal or craft beverage (Reynolds 2009). Specialty coffee is seen as the third wave of coffee. “The third wave, with its insistence on high-quality coffee, has the potential to pay smallholders well for coffee that protects the local environment, supports biodiversity, and provides a decent income for the people who grow, pick, transport, and trade coffee. Smallholder coffee growers produce most of the top-quality arabicas in the world.” (Tucker 2017: 145) Resources can be harnessed through high-priced coffee and sustainable development in coffee industry can be enhanced through transparency, dialogue and respect. Through traceability and transparency, the social process of production is acknowledged. Products are de-commoditized through differentiation in terms of sustainability and quality which contrast with principles of capitalism (Fridell 2007: 5; Borella et al. 2015: 1).

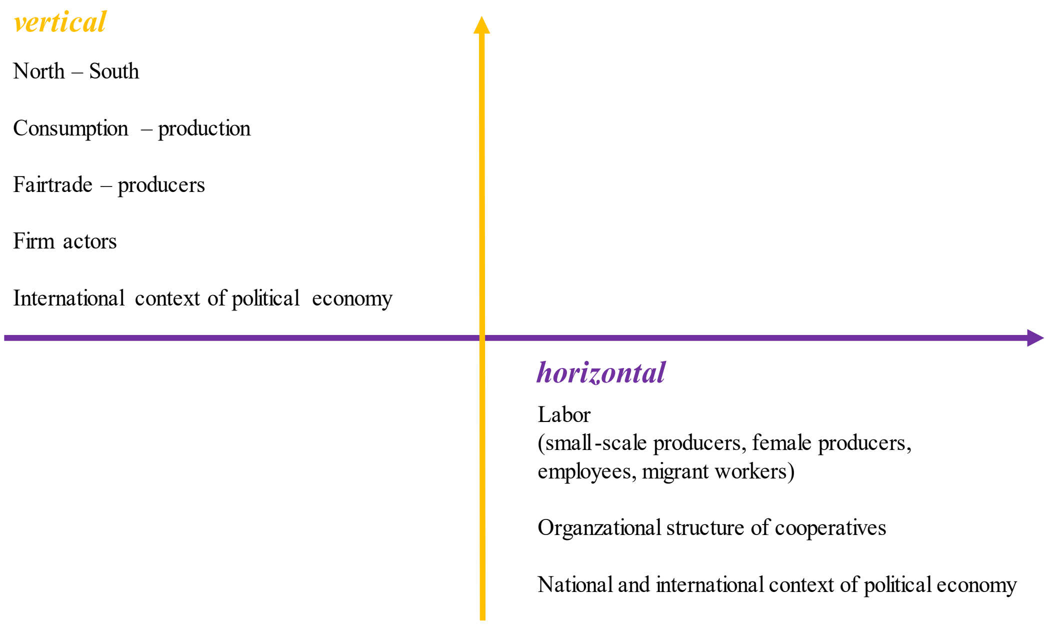
Producers of specialty coffee are well positioned and commercial relations for specialty coffees often correspond to Fair Trade criteria and symbolize empowerment and forms of social and economic upgrading (Interviews 12; 14). Customers are interested in long lasting relationships, buy directly and often pre-finance the purchase at least partly (Interview 14). The requirement even is to create a positive impact on farmer, customer and the planet. At the same time, it concerns little volumes and does not happen on macro level. Firstly, not all farmers are able to produce high quality coffee due to limited access to knowledge and infrastructure. Secondly, markets for Fair Trade and specialty coffees are very limited and “appear to be saturated. Third-wave, Fair Trade, and environmentally conscious markets can help some producers, but they do not challenge the fundamental, systemic structures that maintain inequities in coffee markets." (Tucker 2017: 146). What is more, a manager of a cooperative which focuses on specialty coffee confirms that it is risky to trade specialty coffee. A lot of capital is needed and when derivative market price is high, there is no incentive to produce high quality because local market price is as high as differential for high cup quality. In this case, there are almost no margins (Interview 12).

An interesting side-fact of specialty coffee is that is it often not certified. The value of the coffee is articulated through indication of origin, variety, the production as social process and the sensory experience itself (Henderson et al. 2002: 444; Marsden et al. 2000: 425; Gugerell et al. 2022: 202). Certificates are seen as unnecessary bureaucracy since traceability and transparency even exceeds that of the certificates Fairtrade and organic (Interviews 12; 14). Unlike usual, specialty coffee is no longer an interchangeable, standardized commodity, but a different understanding prevails: transparency, traceability, uniqueness and handcraft are paramount.

## 6.4 Remaining hierarchies and power asymmetries in Fair Trade coffee value chain in Peru

*Figure 4* shows hierarchies on vertical and horizontal axes in Fair Trade coffee value chains. Hierarchies on the vertical axis can be identified between Global North and Global South and consequently between consumption and production (see section 6.4.1). The hierarchy between Fairtrade as an institution and producers is also located on the vertical axis. Hierarchies in labor, within organizations and in the national and international context of political economy, such as representation and participation (see section 6.4.2).

*Figure 4: Vertical and horizontal axes of hierarchies in Fair Trade coffee value chain*




Source: adapted by author based on Marslev et al. 2022, p. 833 and Davenport and Low 2012

### 6.4.1 North-South-Hierarchy

Although the movement originated in the Global South, the hegemony of the Global North soon asserted itself in the internal structure. Baily and Poos note that the rules of Fair Trade were primarily conceived in the North and are based on Northern markets and Northern consumers (Bailly and Poos 2010: 11). Critics argue that the terms of solidarity within global Fairtrade can be set by a transnational elite, and efforts to include small producers and workers in the governance of the global system remain symbolic (ibid.). Consequently, Fairtrade does not break power relations, but rather promotes hierarchies between the Global North and South. The dichotomy remains, there is the Northern consumer subject and the Southern producer subject. The producers of the South are dependent on the quantities sold to the North. At the same time, Fairtrade creates a link between the Global North and the Global South, between the center and the periphery, and opens the possibility of a direct connection between consumer and producer (Gibbon et al. 2008: 315-338; Gibbon 2001: 62).

This can be a first step towards more awareness about production as well as information for more rational decisions. Consumers learn more about the chain of custody and, with the help of the FLO ID, can track exactly which farm the coffee in the packaging comes from (Van der Hoff Boersma 2008: 55). Additional quality of the product justifies a higher price. Principles addresses values such as global social justice, sustainable development, Christian ethics, and climate change discourse (Kister 2019: 226f). Involvement of consumers and producers in a network through paid surcharge enables a shared responsibility. It can lead to a transformation of a “better us” (consumers in Global North) who “helps” a “poor them” (producers in Global South) into a common “us” who are members of a network (Kister 2019: 221, Interviews 9; 13; 15).

The question must always be asked to what extent Fair Trade is really interested in making commodity chains fairer or whether these are attempts to make state regulations superfluous and define the rules themselves in order to secure their dominance (Werner 2021: 318). Thus, Fairtrade has expanded from a distinct niche to a larger market, resulting in strong growth (mainstreaming), but also in a move away from the basic idea itself to a standardized and anonymized certification machinery. Since consumers cannot verify this "added value" oneself, one must trust the information on product or the seal. High credibility is needed (Kister 2019: 226f). Growth of Fairtrade markets is "based on the policy of distribution networks" (Ndongo and Leye 2014: 106). It is accompanied by the fact that the flow of information is primarily going only in one direction: from producer to consumer (Interviews 3; 4; 5; 6). Little information arrives at producers (an exception can be the inclusion in type A), as sections 6.1 and 6.2 show. Since in Global Production Networks the flow of information goes in different directions, it can be stated that Fair Trade coffee value chains remain very less integrated, and firms remain dominant (Henderson et al. 2002: 445; Ndongo and Leye 2014).

Werner argues for a return to the idea of Fair Trade, namely the implementation of an alternative trading system under state regulation, as corporate self-regulation does not work due to the conflict between profit interests and ethical principles (Werner 2021: 331). For this transformation, democratic societies need majorities and an informed public. Although Fair Trade reproduces and sustains power asymmetries, it can be one tool here since it shortens commercial relations. Transformation does not take place at the macro level yet, but food retailers with high market share feel the competition from niche market and react with sustainability projects (Interview 14). Legal regulations like supply chain due diligence acts on European Union (EU) level were only possible through civil society demands. Enterprises and firm actors that have a lot of power need to adapt their practices because regulations also apply to them.

It is important to note that the Global South cannot be considered as something homogeneous. Local contexts are very heterogeneous and differ even within the same country and even province, as urban-rural gap is large and coffee producers as well as cooperatives face different challenges and power is distributed very unequally (Interviews 3; 4; 5; see section 6.2). This is also clear from the fact that 2.5 billion people who depend on small-scale agriculture play an essential role in the transition to a climate neutral economy, but the sector has less than 2% of climate finance (Solidaridad 2022). At the same time, they are most affected by the impacts of climate change. Locally led efforts must be supported to build smallholder resilience economically and also resilience of ecosystems they are dependent on. Their ecosystem services and low-emissions food systems require fair payments since they are critical not only to food security but also have potential as carbon store. This value needs to be appreciated more and Fair Trade as a movement can help to act as a voice and transport local solutions to the higher level. From a critical point of view, Fair Trade could have contributed more to this long ago.

Three networks were created to represent and interconnect producers in three different regions: There is the Latin American network CLAC, the African Fairtrade Network, and the

Network of Asian and Pacific Producers (NAPP). They all play different roles and represent a different form of advocacy influenced and determined by cultural aspects and different forms of organization in production networks. The Latin American network is the most political, partly due to its long history (CLAC 2022). They represent different regional and local interests, and the representation of the most vulnerable producers is questioned and very context dependent. One criticism is that members of the most remote regions do not sit at round tables of the three networks (Neilson 2019: 297; see also sections 4.5 and 6.4.2).

### 6.4.2 Horizontal hierarchy within Peru

The lack of consideration of hired labor in Fairtrade counts as part of the horizontal hierarchy. It was asked for hired workers in the interviews conducted but all interviewees explain the secondary role of hired labor. A president of one cooperative outlines that the FTO price can only last occupying his own and the family member's workforce. According to him, the minimum price is limiting extension and reproducing inequalities to the disadvantage of smallholder farmers: Organic production is labor intense and while employees must be paid appropriately, for the size of his three-hectares farm it does not pay off. That is one reason why most of the cooperative's associates do not hire other people constantly but rely more on family and exchange labor (Interview 2). Studies confirm this (Ruben and Fort 2012: 577; Fairtrade International 2022b). This raises the question of whether Fairtrade in turn reproduces hierarchies if the calculation only works if family labor is not counted as production cost. When evaluating a living income reference price for Peru, this aspect should be considered.

A scaling effect becomes apparent here, as farmers with more land can proportionally save costs: acquisitions are worthwhile with more production and transport is cheaper, to name two examples. In several cooperatives interviewed it becomes apparent that scaling effects may contribute to hierarchies: Associates with more land (8-35 ha) are disproportionately represented in board of directors and they influence the topics that are worked on as cooperative. Similar applies to the size of cooperatives: Larger cooperatives can proportionally save costs for personnel, transport, further processing and work in a more structured manner. Growing demands on quantity and quality also mean changes among production actors regarding organization and monitoring of quality controls as well as knowledge to meet the requirements. The greater the volumes available for export, the greater the scope for negotiation and flexibility (Interview 16). Investments in infrastructure and own export make intermediaries superfluous and enables stronger value creation at the place of production (Kister 2019: 209). Larger cooperatives provide services for smaller cooperatives in terms of processing and exports (Interviews 6; 10). In addition, they sometimes use their resources and knowledge and buy green coffee from others when price is low and sell it again to gain. They themselves play with the market, but they are only able to do so if they have a certain financial scope, an offer of coffee and, of course, the knowledge needed (Interview 10). Here, the hierarchy between firms and smallholders is reflected since they have a greater scope and flexibility. Gereffi considers this as governance: financial, material and human resources are not just coordinated through market exchange but their allocation and flow within the chain are determined by authority and power relationships (Gereffi 1994: 215).

Several interviewees mention the importance of the approach to "act like a company" pursuing efficient processes (Interviews 5; 6; 7; 8; 10; 13; 14). The peculiarity of cooperatives to make democratic decisions can sometimes slow down or even prevent decisions from being made. A cooperative in the Amazon department experienced the following: The cooperative received its own process plant in 2016 thanks to a project fund of the Ministry of Agriculture. Since the plant capacity is not exhausted by its own production and at the provincial level, the manager proposed to move the plant to the city Bagua Grande where there is more need, and which is strategically well located (4 hours away). The idea was that the cooperative would provide service to others and thereby generate profit. Some associates understood this idea as a possible theft of the process plant. They convinced other associates that the cooperative's property could only be controlled if it remained in Rodríguez de Mendoza. In the end, it was decided democratically that the plant would remain in Rodríguez de Mendoza, where the members can see it for themselves from time to time and supposedly control it. Only their own coffee is processed there. In Bagua Grande, another association has now built a large processing plant, provides service to others, and makes profit.

This example highlights different dimensions of upgrading and downgrading. It shows how the cooperative respects democratic decisions. The members see it as theft and loss of control that the plant is being moved to a place they may not know. This has to do with the general information imbalance among the associates of the cooperative, their average age, the history of corruption of the cooperative, the varying levels of education, and the sometimes-difficult infrastructure to disseminate information and brief all associates equally. Managers and associates of cooperatives explained me that the inert structure of cooperatives can deteriorate their position in the competitive environment in which they operate. At the same time, association with a cooperative brings unity, knowledge-spillover, security (social and economic upgrading). All the associates interviewed are not thinking about leaving. They only see advantages in being associate.

Increasingly larger and more conventional farms being Fairtrade certified represent a major obstacle, small-scale producers fear a dilution of FLO criteria and see the competition within Fairtrade critically because it threatens their bargaining power (Kister 2019: 292). Certification was extended due to more demand than offer for Fairtrade products and the criteria for Fairtrade certification have been softened and some producer's names were even used for fake cooperatives (Interviews 12; 13; 16; Davenpoort and Low 2012: 330). Fairtrade Peru got to know this misuse only a few years ago and is working on it now, e.g., in making certification process more demanding (Interview 16). The seal originally standing for small-scale producers and the most vulnerable has lost credibility especially due to over-certification (Kister 2019: 292). Peru counts the most certified producer organizations and for some years, corporations have been certified although smallholder cooperatives already produce more than the market can sell (Tucker 2017: 141).

Recently, CLAC and Fairtrade Peru have imposed an affiliation stop for new organizations but those who already got the certification, even through fraud, are not immediately proved or decertified (Interview 16). The saturated market is the reason for the different types of Fair Trade value chains (see section 6.1) that constrain the impact of Fair Trade because only a part of exports is sold at FTO price (Interviews 10; 12; 13; Fairtrade International 2022a). "Fair Trade also remains a specialty market; mainstreaming appears to have benefited corporations (that can use suggestive labels while buying few Fair Trade goods) more than producers, who still seek Fair Trade buyers" (Tucker 2017: 141). Fair Trade is in the tension between coffee as a standardized commodity with high anonymity on the one hand and more transparency, traceability, and often higher quality on the other hand.

Infrastructure varies a lot within coffee growing provinces: In Amazon department some fincas are not reachable by roads, there is no telecommunication, electricity, and medical care. Others who have their finca close to Jaén can check the derivative market price every day, but they face a higher competition. They can get access to information more easily, for example online trainings, new fermentation methods etc.  Producers in very remote areas appreciate the calmness and low crime rate but criticize low development opportunities (Interviews 3; 4; 5). What is more, producers feel as their own boss, they enjoy their freedom and some are very proud to produce (high quality) coffee. Yet it varies if they feel ownership of the cooperative because they perceive the educational and information imbalance, too. They have different opinions on if they wish that their children keep working as coffee producers. Those who are able, finance higher education for their children. There is a correlation between the degree of upgrading and development achieved, the pride of being a coffee producer and accordingly wishing a similar or different (better) future for one's children (Interviews 13; 14).

Associates, employees of cooperatives (and hired workers) are not significantly involved in design of standards, regulatory process or even development of the label. They have very limited knowledge about them and the whole Fairtrade system (Interviews 3; 4; 5; (Koenig-Archibugi 2017: 38; Palpacuer 2019; Fairtrade International 2021). Farmers complain about some criteria to meet standards which sometimes do not meet the needs of local people but needs of the certificate although they know their land much better than an outsider. There is no equitable decision-making (Tucker 2017: 140). Both CLAC field visits and FLO audits follow the same dynamic as the one-way flow of information described earlier (section 6.4.1) When fewer organizations were certified, CLAC provided trainings (Interviews 6; 8).

Nowadays, producers and cooperatives are interviewed and inspected according to the established criteria. *"They are just checking if we comply"* (Interview 3). Interviewees report about strict audits, but at the same time they assume that cooperatives are controlled more strictly than large traders. They have noticed irregularities there, although they always receive the certification anew (Interviews 8; 11; 13; 14; 15). The interviewees are convinced of the vision of Fair Trade itself but doubt the coherent implementation. Due to this, they also do not have high expectations of Fair Trade except for a higher price, which they can receive thanks to the certificate (Interviews 8; 11; 13; 14; 15). The interviewed CLAC representative explained that resources are very limited: They have been only five people for 270 organizations in Peru which is just not enough (Interview 16).

Representatives of cooperatives that have types A and B report that in 2019, CLAC did launch a survey and organized meetings among representatives. This initiative primarily addressed the issue of living income but was stalled by the pandemic (Interviews 2; 16). The participation of the established cooperatives was mostly favored by direct contacts in the Global North, which told their producer organizations about it and partly also supported this initiative financially (Interview 16).

In addition, all interviewees confirm that they do not feel represented by the national coffee board (Junta nacional del café) or the chamber of coffee and cocoa (Cámara de café y cacao) (Interviews 1; 3; 8; 10; 11; 12; 13). Contrary to Colombia where the federation is like a norm producers have to achieve, in Peru it is voluntary. The national coffee board focuses on quality and they train coffee tasters who define cup quality. Regarding this, it is effective, but in technical assistance, it is not very significant. Both bodies, the national coffee board and the chamber of coffee and cocoa are based in Lima and considered as far away from origin and reality of life of coffee producers (Interviews 8; 9; 13; 14). What is more, they are viewed as a corrupt body since the large traders and (international) distributors have their representatives there. The cooperatives visited are not affiliated there. It is a weakness in Peru that different organizations are formed and there is no representation of all. CLAC could act as an interface here and bring the actors together, but CLAC has also lost credibility among the certified producers. They say, CLAC has lost connection to the base and criticize that CLAC stops by and looks at flagship projects but does not pick up the most vulnerable groups and develop problem-solving approaches (Interviews 3; 8; 13).

## 6.5 Limitations and problems of Fair Trade

It is important to consider the economic contradiction inherent in Fair Trade in general. Fairtrade was founded as an alternative to the capitalist world market system. It was meant to be a simplification of complexity and a link between production and consumption. The goal was to move away from charity trade, which still has a pronounced North-South and donor-recipient relationship. In the Fair-Trade concept, however, there is a conflict between the logic of capital accumulation and the realization of justice in trade. Fair Trade follows the conditions required to make a profit. In this way, it gains access to international markets. Or, to put it another way, Fair Trade's goal is to bring sustainability issues into the mainstream which means a contradiction within Fair Trade (Herman 2019a: 334). The changes the movement has undergone include, for example in the case of bananas, certifying plantations that are a product of colonial times. The goal was to reach mainstream markets through mainstream marketing techniques (Davenpoort and Low 2012: 330). This led to more certified coffee producers in Peru and an increased volume of Fairtrade products sold. But producers and buyers are still no equal contract partners since producers are price takers. They are dependent on derivative market price due to over-certification: all cooperatives interviewed have the Fairtrade certification. 100% of their coffee has Fairtrade and organic certification, but they sell only 40-70% of their entire production at FTO price, which is higher than average. Their agency and thus, empowerment and equality, in contracts is very limited. It depends on the type of value chain and the price-setting behavior of buyers how fair the trade actually is.

The practice of purchasing “combos” is widespread (see section 6.1) and it is very attractive in the beginning to start to sell. Because it helps to sell and to export directly (Interview 10). In this case, Fairtrade facilitates market access and brings producer and buyer together. But at the same time, *“it camouflages and deceives a not very well-done sale”* (Interview 14). It undermines principles of Fair Trade and it is approaching business practices of the conventional market (Interviews 14; 16). This eroding of the standard has started to take place since large distributors and supermarket entered the Fair-Trade market (Werner 2021: 325; Cramer et al. 2017; Cramer et al. 2014).

The question is and remains, even in Fair Trade: Who defines a fair price? Who defines a decent living income? There is a lack of representation of producers in Fair Trade and it is dependent on the actors it aims to regulate (Blowfield and Dolan 2010: 148). It offers a real alternative within the capitalist market system that is unique. On the other hand, the vision of Fairtrade is lost, and the organization tends to enter the system of capital accumulation, reducing the poverty of farmers and workers, but taking no real steps towards greater justice in trade in general. When the market price is low, Fairtrade certified producers are at an advantage. They can be seen as empowered because they can earn a higher price compared to others. This is absurd in the sense that they benefit from frost, drought or other problems and resultant loss of income for producers in other coffee producing countries (Interview 10). In times of low derivative market prices, certification makes a difference through the differential which secures covering of production costs. However, when the market price is high, certified producers are less empowered because the differential does not make much difference. So, Fair Trade does not break the general logic (Interview 10).

Ndongo and Leye also criticize minimum prices and premiums for being nominal prices that are sensitive to exchange rates and inflation (Ndongo and Leye 2014: 100). In fact, they are only revised every three to four years, which means little flexibility (Fairtrade International 2023). Price fluctuations also repeatedly lead to cooperative members selling their products in advance at supposedly better conditions on other markets than through the cooperative. This may give them more money in the short term, but they miss out on the premium in the long term, and this does not redress the information imbalance. Rather, it favors speculators who continue to have better information than residents in the production regions can obtain. In the long run, this also leads to lower units sold at the Fairtrade price (Ndongo and Leye 2014: 106-108).

In Peru, there is no national strategy or representation of coffee producers. Neither the chamber of coffee and cocoa, nor the national coffee board, nor CLAC Peru legitimately represents the producers. Most of the people working in coffee, 223,000 producer families in Peru (UNDP 2019), are small scale producers and they face lack of support to unite. There are no initiatives towards national price stabilization schemes, but producers are exposed to price volatility (Staritz et al. 2015: 53). CLAC is just starting to work on a national board that strengthens coffee producers, but it has far too few staff to work effectively (Interview 16). There is no trade union and therefore no transformation taking place. Due to this there is not a lot of systematic research on coffee in Peru although coffee has always been the most important soft commodity exported (Sachs et al. 2019: 94; Interview 9). Many cooperatives apply for short-term-projects financed by public sector and/or international developmental cooperation bodies. This leads to a lack of professional staff with unlimited contracts and therefore, to a holistic and integral approach that is long term and sustainable anchored on a macro level. This is reflected, for example, in the sparse expansion of the infrastructure. It is often cooperatives that build roads in the most remote regions, from which others also benefit (Interview 7).

Another principal problem is the access to credits and loans: As cooperative, it is already easier, but it is hard to get credits from national and international banks and financers (Interview 15). When an organization or a company does not have a certain track record in the market, there are difficulties. Bigger companies are in advantage because they dispose of more capital (Interview 12). National banks take high interest rates of 16 to 18%. To get access to international credits of Oikocredit (11,5%) or root capital (12%), cooperatives need a credit history. They must attest that they have been in the market for many years, they need to export directly and solid clients abroad to prove reliability (Interviews 10; 12). These criteria pose the greatest challenge for the most vulnerable groups, but which Fair Trade cannot facilitate.

Corruption both in cooperatives and in FLO is a recurring characteristic people describe for limitations and problems with impacts of Fairtrade. People interviewed are convinced that some companies make use of low education level of producers who are not associated but paid to put their names in the list of a fake cooperative (see section 6.4.2). This is a real deficit and abuse of the certificate, but FLO has not been noticing it for many years (Interview 16).

Although Fairtrade is working on gender aspects, in the interviewed cooperatives in Peru there are still much more men associated. Even though coffee production is a job done by both men and women, more than 80% of associates are men in all cooperatives interviewed. Hence, they are generally better informed. They have the right to vote and to become member of the board of directors or delegate of the village. Men participate more in meetings and trainings and benefit more of social upgrading. All cooperatives have women committees since some years ago but some are just symbolic and not really working (anymore) (Interviews 5; 6; 8; 11; 12).

# 7. Conclusion

Voluntary commitment as well as national and international frameworks are becoming increasingly complex in the globalized world and often pose a dilemma. Fairtrade as the largest label undoubtedly stands in exactly this tension. On the one hand, it creates an alternative in the system and has direct economic and social impacts, as has been analyzed. The GPN approach has been used as theoretical background to analyze the (Fair Trade) coffee value chain considering aspects of power aspects and upgrading strategies (economic and social upgrading) applied to the broader context of rural development. The theoretical framework was complemented by Jutta Kister's typification of different value chains in Fair Trade. The thesis built up on data on (Fairtrade) coffee prices and its (livelihood) impacts for producers. 19 semi-structured interviews with different stakeholders at the beginning of the Fair Trade coffee value chain in Peru allowed to understand direct and indirect effects of Fair Trade, remaining hierarchies and power asymmetries within Fair Trade. This method gave insights into purchasing practices and price setting processes that characterize different types of value chains. The results allow a better understanding of limited impacts of Fair Trade and therefore fill a research gap.

There were three research questions guiding this thesis:

1. *What different types of Fair Trade coffee do exist in Peru and what are their livelihood impacts?*
2. *How is Fair Trade used by different types of farmers and cooperatives particularly related to size and region in Peru to remain in and benefit from their integration in the world market?*
3. *Is Fair Trade an alternative which has the power to transform the market?*

In general, Fairtrade certification guarantees the formulated standards and tends to lead to an improvement for producers. The study conducted confirms a positive relationship between certifications and price that several studies have found before. According to the figures, Fairtrade is growing and effects more producer organizations in the Global South increasing their incomes and reducing their poverty. Belonging to a cooperative and producer organization also creates self-empowerment, which has far-reaching positive social effects in addition to economic ones (see section 6).

Overall, there are positive impacts. The findings show that a widespread Fairtrade certification in the regions where cooperatives were interviewed leads to a general price stability and encourages higher prices not only for certified producers (see section 6.2). Through price compensation, fluctuating derivative market price is cushioned to an extent. This means a security for producers and impacts their economic and social situation as well as their investment decisions and planning security.  To be noted is the following: If market prices are low and producer organizations sell a large part of their production at Fairtrade prices, Fairtrade has a positive impact. If market prices are higher than the Fairtrade minimum price, then Fairtrade is less significant.

Fairtrade as a standard suggests a standardized, reliable label in any case. But it depends on many factors what the impacts of Fair Trade are. They vary from region to region and from individual to individual, but Fair Trade does not lead to any deterioration. The effects of Fair Trade are influenced by several aspects: By the type of Fair Trade value chain cooperatives have, the spatial and temporal context of the cooperative, the geographical location, the coherence of the cooperative with the standards, and the extent to which the managers are loyal and have the good for all in mind. Long-term certification and a high share of sales at FTO price provides scope to realize and implement the visions of Fairtrade, but it all depends.

The Fair Trade market is saturated and there is an over-certification. Cooperatives face the problem that they are not able to sell all certified products at the same price, because the certification does not include a corresponding access to the market. This is why different types of Fair Trade coffee value chains emerged. The findings show that all types from A to D of Fair Trade coffee value chains are represented in Peru. Volume wise, mostly types B and D are represented. In type D, producers are only suppliers of raw materials, and the trade relationship is in no way an empowerment of producers. Only long-established cooperatives have type A and B. New cooperatives hope that initial contracts will establish them on the market and some B or C types will become A or B types a few years later. As analyzed, "combos" are a widely used purchasing practice. "Combos" are attractive, especially for cooperatives that have not been existed for so long. They make use of both Fairtrade and organic certification to get integrated in the world market. In Peru, contacts in national coffee network play an important role to develop types A and B of Fair Trade coffee value chains, as showed in 6.1. Territorial and network embeddedness create an enabling environment for cooperatives and facilitates prosperity in the long term. In this respect, however, it must be noted that Fairtrade and CLAC are partly favorable to this network, but do not have a decisive influence on it. The work of strengthening and supporting the cooperatives is neglected on the part of Fairtrade and CLAC. This is already shown by the personnel situation.

In Peru, only about 22 percent of Fairtrade-certified coffee finds a Fair Trade buyer, the rest of coffee is sold to other markets, in many cases at derivative market price. For interviewed cooperatives in Peru, this is not the case. Some cooperatives interviewed sell 30 per cent on Fairtrade terms, others 70 per cent (see section 6). It is consequently not surprising that the impact of Fair Trade is diminished when production costs are constant but selling prices of certified coffee fluctuate due to insufficient demand. It can be stated that the Fair Trade market is buyer driven and producer organizations remain price takers. Size of cooperative plays a role insofar that a certain production must be achieved to have a scope for negotiating and planning. The positive scaling effects have been analyzed for Northern Peru. Since all cooperatives interviewed have already a certain degree of organization and all of them are exporting directly, the most marginalized producer organizations in Peru have not been interviewed and this criticism can therefore not be confirmed or disproved. What can be concluded is that a certain organizational degree is necessary to be competitive since price determination of FTO coffee remains greatly influenced by global developments and price setting and purchasing practices by firm actors.

What did and does work is the opening-up of markets and small organizations are key elements of strategies for rural development and preventing environmental degradation. Expansion of new plantations in primary forest areas can be avoided through productivity increase, quality upgrading, organizational strengthening. Resulting social and economic improvements for coffee producers leads also to ecosystem services they perform. It must be acknowledged that this would not have happened so widely if the Fair Trade movement had remained a small niche. Labels like Fairtrade allow an enormous improvement in traceability and transparency. Specialty coffees have also emerged from contacts between producer organizations in Global South and buyers in the Global North. They have the side effect of creating partnerships that lead to producers tasting for themselves the finest coffees in the world that they produce, and having a face for who is consuming them. Thus, some success stories tell of the sovereignty and empowerment of producers in the Global South that were intended in the origins of the Fair Trade movement. There are still few of these because it is still a small niche, but they should be further explored, as should the impact of Fairtrade in particular.

Gross revenues and net income are higher through Fair Trade. The massive growth of Fairtrade has led to improvements in living conditions in the Global South and reduction of poverty as well as a transfer of income from the Global North to the Global South. At the same time, described limitations and problems of Fair Trade exist mainly due to the market expansion. It caused remarkable hierarchies and imbalances of power within Fair Trade on the other hand. Despite of certification, producers that are integrated in value chains of types C and D remain in poverty and are not empowered at all. This is insufficient and does not live up to its own standards. Benefits are distributed unevenly which is typical in capitalist system and attests an approximation to the conventional market. The conflict of goals of bringing justice to capitalism persists and, in some ways, Fair Trade has been captured by the markets it had been trying to change. Firm actors entered Fair Trade markets but continue their conventional purchasing practices and lead the value chains and networks. Fair trade continues to work to eliminate injustices and provide a revolutionary alternative to established market structures. Results from interviews conducted in Peru show that a transformative force only exists in best practices towards specialty coffee and direct trade relations of type A and B.

Regarding certifications, it is always a question of whether a niche should be expanded and included in the established market to expand the market and thus sales, or if original visions inevitably get lost with standardization. As the results show, there may be a positive correlation between Fair Trade and positive impacts with respect to economic, social and ecological aspects. It reinforces sustainable practices like agroforestry systems, as well as strengthened organizations and empowered producers. At the same time, Peru hosts the highest number of Fair Trade certified organizations in the world and has a relatively developed and well-functioning informal network in the coffee sector. The fact that so many deficits of Fair Trade are evident despite these preconditions attests to deficiencies that prevail in the system.

Therefore, it must be concluded that Fairtrade alone cannot solve the injustices in international trade. The research conducted shows that market-oriented certification does not substitute policy strategy, national support and a legally binding framework. This requires further development of policy regulations and, above all, greater control of derivatives markets and the financialization of commodity markets. TNCs' behavior, in particular purchasing practices, should be restricted and altered to prevent harm to both people and the environment. To promote reforms in social justice, economic equity, and environmental sustainability, there is a need for trade rules and legal restrictions. Power should be transferred within and among nations.

However, it should be noted that Fairtrade is an instrument that has been working for decades and includes some counter-hegemonic elements that make a difference in the current capitalist hegemony. It is a system that can change the status of producers and not only consider them as suppliers of raw materials. It is therefore necessary to conduct further research on the continuously growing Fair Trade system and on different types of Fair Trade value chains, not only relating to coffee. These enable a better understanding of impacts on actors at the beginning of the value chain and an in-depth investigation of the transformative potential of Fair Trade for the whole market.

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# 9. Appendix

*Appendix I Guidelines for semi-structured interviews with different stakeholders*

**Semi-structured interview with associate of cooperative**

- A) Introduction of inteviewee
  - 1. What is your name?
    2. How long have you been a member of the cooperative?
    3. What sector do you belong to, how many members are you?
    4. What is the size of your coffee growing area? How much coffee do you produce per year?
    5. Do the members employ workers for the harvest?
    6. Is coffee your main source of income?
    7. If there is other income, what is it?
    8. What percentage of production do you collect in COOPARM?
- B) Organizational structure
  - 1.a What are the benefits of being a member of a cooperative/COOPARM?
  - 1.b What should be improved/changed?
- C) Perception of Fair Trade technically and as a movement
  - 1. What is understood by "Fair Trade" and its principles?
  - 2.a What are the benefits of Fair Trade? Does it have benefits apart from the economic part?
  - 2.b What should be improved/changed within Fair Trade?
  - 3.a Which actors are involved in the formulation of formalized standards and certifications?
  - 3.b Are certifications and standards adapted to the situation of smallholder farmers?
  - 3.c How are they communicated and what effect do they have?
  - 3.d How are they anchored in the cooperative?
  - 3.e What level of participation in decision making is there? How do you see the distribution of the benefits of fair trade to the members?
  - 3.f Are there hierarchies within the cooperative (e.g. lack of representation of members from distant sectors, with respect to competition with other cooperatives?
- D) National policies
  - 1. Coffee is Peru's most important agricultural product. To what extent is this reflected in the support provided by the government (infrastructure, taxes, etc.)?
- E) Trends, driver, challenges and future outlook
  - 1. What are current challenges and developments regarding coffee production, coffee prices and Fair Trade?
- F) Open questions, additions

**Semi-structured interview with technical staff of cooperative**

- A) Introduction of interviewee and organizational profile
  - 1. How many members belong to the cooperative?
  - 2. When was the cooperative founded?
  - 3.a What are the sizes of your coffee growing areas (minimum, maximum)?
  - 3.b Do the members employ workers for the harvest?
  - 4.a Is coffee your members' main income?
  - 4.b If there are other incomes, what are they?
  - 5. How much coffee do you produce and export per year?
- B) Coffee GPN in Peru: competition and cooperatives
  - 1. How would you describe the coffee sector in Peru, how is it characterized and how would you position your association/cooperative in the sector?
- C) Perception of Fair Trade technically
  - 1. What is understood by "Fair Trade" and its principles?
  - 2. Which actors are involved in the formulation of formalized standards and certifications?
  - 3.a Are certifications and standards adapted to the situation of smallholder farmers?
  - 3.b How are they communicated and what effect do they have?
  - 3.c How are they anchored in the cooperative?
  - 4. What are the hierarchies in Fair Trade between countries of production and countries of consumption and hierarchies within Peru (according to the size and region in which the cooperative is located), within the cooperative, with respect to competition with other cooperatives and associations?
  - 5.a Are certification and labeling initiatives changing?
  - 5.b What is the impact of private standards?
- D) Perception of Fair Trade as a movement
  - 1. Fair trade should continue to be seen as an alternative to conventional trade. Is it becoming more and more like the conventional system as the volume of trade increases (in the sense that powerful activities occur at the end of the value chain and that there is a dependence on the Global North)?
  - 2. What power structures determine Fair Trade value chains and how do they differ in alternative Fair Trade value chains from conventional ones?
  - 3. How do certifications and standards change as the niche market becomes more equal to the conventional market?
  - 4.a What proportion of production is actually sold at or even above the Fairtrade Organic price?
  - 4.b What are your trading partners (small roasteries, supermarkets, importers etc.)? (this refers to the concept of categorizing different types of fair trade - if the trading partners are small roasteries with long-term relationships, for example, which is different from business relationships with supermarkets)
- E) Fair Trade coffee value chains and its implications

- 1.a How do different types of farmers and cooperatives use Fair Trade, especially in relation to size and region in Peru, to remain and benefit from their integration into the global market?
    - 1.b What strategies have the producers/cooperatives developed to integrate or remain in the world market?
    - 1.c What restructuring is taking place in terms of market access, quality, transparency and traceability?
    - 2. Which actors are using sealing as a market access strategy?
    - 3. Are new opportunities emerging for producers as a result of the expansion of the Fair Trade sector?
    - 4. Are there trade relations on equal terms, as the Fair Trade vision intends?
    - 5.a What role do relationships play in the central node for the implementation of standards, for learning processes, for development opportunities, improvement processes and the like?
    - 5.b What are the benefits of Fair Trade apart from the economic part, e.g. gender equality, network strengthening, power relations between actors in the North and South?
- F) open questions, additions

**Semi-structured interview with managing directors of cooperative**

- A) Introduction of interviewee and organizational profile
    - 1. How many members belong to the cooperative?
    - 2. When was the cooperative founded?
    - 3.a What are the sizes of your coffee growing areas (minimum, maximum)? 3.b Do the members employ workers for the harvest?
    - 4.a Is coffee your members' main income?
    - 4.b If there are other incomes, what are they?
    - 5. How much coffee do you produce and export per year?
- B) Coffee GPN in Peru: price volatility, risk management, competition and cooperation
    - 1. How would you describe the coffee sector in Peru, how is it characterized and how would you position your association/cooperative in the sector?
    - 2. What are main challenges for producers?
    - 3. What is the approach of the cooperative to address these challenges, especially price volatility?
- C) Perception of Fair Trade technically
    - 1. What is understood by "Fair Trade" and its principles?
    - 2. Which actors are involved in the formulation of formalized standards and certifications?
    - 3.a Are certifications and standards adapted to the situation of smallholder farmers?

- 3.b How are they communicated and what effect do they have?
  - 3.c How are they anchored in the cooperative?
  - 4. What are the hierarchies in fair trade between countries of production and countries of consumption and hierarchies within Peru (according to the size and region in which the cooperative is located), within the cooperative, with respect to competition with other cooperatives and associations.
  - 5.a Are certification and labeling initiatives changing?
  - 5.b What is the impact of private standards?
- D) Perception of Fair Trade as a movement
  - 1. Fair trade should continue to be seen as an alternative to conventional trade. Is it becoming more and more like the conventional system as the volume of trade increases (in the sense that powerful activities occur at the end of the value chain and that there is a dependence on the Global North)?
  - 2. What power structures determine Fair Trade value chains and how do they differ in alternative Fair Trade value chains from conventional ones?
  - 3. How do certifications and standards change as the niche market becomes more equal to the conventional market?
  - 4.a What proportion of production is actually sold at or even above the Fairtrade Organic price?
  - 4.b What are your trading partners (small roasteries, supermarkets, importers etc.)? (this refers to the concept of categorizing different types of fair trade - if the trading partners are small roasteries with long-term relationships, for example, which is different from business relationships with supermarkets).
- E) Fair Trade coffee value chains and its implications
  - 1. How do different types of farmers and cooperatives use Fair Trade, especially in relation to size and region in Peru, to remain and benefit from their integration into the global market?
  - 2 What strategies have the producers/cooperatives developed to integrate or remain in the world market?
  - 3.a What restructuring is taking place in terms of market access, quality, transparency and traceability?
  - 3.b Which actors are using sealing as a market access strategy?
  - 4. Are new opportunities emerging for producers as a result of the expansion of the Fair Trade sector?
  - 5.a Are there trade relations on equal terms, as the Fair Trade vision intends?
  - 5.b What role do relationships play in the central node for the implementation of standards, for learning processes, for development opportunities, improvement processes and the like?
  - 6. What are the benefits of Fair Trade apart from the economic part, e.g. gender equality, network strengthening, power relations between actors in the North and South?
- F) National policies, initiatives and representation
  - 6. What influence do social, institutional, and legislative frameworks have on the design of certifications and standards?

- 7. Coffee is the most important agricultural product in Peru, to what extent is this reflected in the support provided by the government (infrastructure, taxes, etc.)?
- G) trends, drivers, challenges
  - What are current challenges and developments regarding coffee production, coffee prices, organization and Fair Trade in Peru?
- E) open questions, additions

**Semi-structured interview with CLAC representative**

- A) Introduction of interviewee and organizational profile
  - 1. How would you describe your current occupation?
  - 2. What are your experiences with certifications and cooperatives?
- B) Coffee GPN in Peru
  - 1.a How do different types of farmers and cooperatives use Fair Trade, especially in relation to size and region in Peru, to remain and benefit from their integration into the global market?
  - 1.b What strategies have producers/cooperatives developed to integrate or remain in the world market?
  - 1.c What restructuring is taking place in terms of market access, quality, transparency and traceability?
  - 2. What actors are using sealing as a market access strategy?
  - 3. Are new opportunities emerging for producers as a result of the expansion of the Fair Trade sector?
- C) Fair Trade as an institution
  - 1. How are regulatory requirements, such as fairness in global trade, being reframed into minimum social standards?
  - 2. What is understood by "Fair Trade" and its principles?
  - 3.aWhich actors are involved in the formulation of formalized standards and certifications?
  - 3.b Are certifications and standards adapted to the situation of smallholder farmers? Is there a national or international exchange on standards in which producers participate?
  - 4.a How are standards communicated and what effect do they have?
  - 4.b How are standards anchored in the cooperative?
  - 5. What hierarchies exist in Fair Trade? (between countries of production and countries of consumption, within Peru (according to the size and region in which the cooperative is located), within the cooperative, with respect to competition with other cooperatives and associations)
- D) Fair Trade as a movement in Peru

- 1. Fair trade should continue to be seen as an alternative to conventional trade. Is it becoming more and more like the conventional system as the volume of trade increases (in the sense that powerful activities occur at the end of the value chain and that there is a dependence on the Global North)?
    - 2. What power structures determine Fair Trade value chains and how do they differ in alternative Fair Trade value chains from conventional ones?
    - 3. How do certifications and standards change as the niche market becomes more equal to the conventional market?
    - 4. Is there over-certification?
    - 5. Are there trade relations on equal terms, as the Fair Trade vision intends?
    - 6. What role do relationships play at the central node for the implementation of standards, for learning processes, for development opportunities, improvement processes and the like?
    - 7. What are the benefits of Fair Trade apart from the economic part, e.g. gender equality, network strengthening, power relations between actors in the North and South?
- E) National policies, initiatives, and representation
    - 1. What influence do social, institutional, and legislative frameworks have on the design of certifications and standards?
    - 2. Coffee is the most important agricultural product in Peru, to what extent is this reflected in the support provided by the government (infrastructure, taxes, etc.)?
- F) Open questions, additions

**Semi-structured interview with coffee trader/importer:**

- A) Introduction of interviewee and company
    - 1.a How would you position your company in the coffee value chain?
      1.b How would you describe/classify your producers & customers?
    - 2. How do you proceed to source coffee and sell it?
    - 3. To what extent does your company proceed differently than others in terms of market access, quality, transparency, traceability?
    - 4. How much coffee do you import? (total and Peru)

- B) Coffee GPN: price volatility, risk management, actor level
    - 1. Which actors are involved?
    - 2. Which external factors influence the trade?
    - 3. What is your risk management approach?
    - 4. What role do labels (organic, fair trade etc.) play?
- C) certifications and trading practices, Fair Trade
    - 1.a What are current developments regarding direct coffee trading?
    - 1.b How did strategies change since the foundation of your company?

- 2.a Which power structures determine the value chains in alternative trade like direct trade (and Fair Trade), especially between actors in the Global North and South?
    - 2.b To what extend do they differ from value chains in conventional trade?
    - 3. Does direct trade lead to economic and social upgrading and empowerment of producers?  (e.g. gender equality, network strengthening, power relations between actors in the North and South)
    - 4. What is your perception of Fair Trade?
- D) Open questions, additions