

**THE DEVELOPMENT AND IMPLEMENTATION OF FAIR
TRADE IN PERU: DETERMINANTS, CONSEQUENCES, AND
CHALLENGES**

by

Marinas Tapia Alicia Del Carmen

September 2014

Thesis Presented to the Higher Degree Committee
of Ritsumeikan Asia Pacific University
in Partial Fulfillment of the Requirements for the Degree of
Doctor of Philosophy in Asia Pacific Studies

SUMMARY

Fair Trade is a trading relationship between producers and consumers which aims to offer the latter with alternative ways of trading inside the global capitalist system. Thus, Fair Trade implies the implementation of several practices that allow marginalized producers to overcome market constraints and access lucrative international markets, while supporting their sustainable development. These practices include: organizing producers, providing them with resource access, ensuring economic and financial benefits, sustaining relationships, and promoting social justice and sustainability.

The main objective of this research is to describe and analyze the development and implementation of Fair Trade in Peru. This dissertation attempts to establish the framework of this development. It also aims to identify the main factors that have influenced the development of Fair Trade, particularly: the State, producer groups, markets and consumers, and NGOs. Further, this study examines the ways and the extent to which Fair Trade, through its practices, addresses market imperfections and helps producers enhance their markets.

The dissertation employs an integrated conceptual framework in addressing the different but interrelated questions and objectives. The integrated framework aims to guide the analysis of the development and implementation of Fair Trade in Peru, connecting the main factors which have influenced this development with an analysis

of the implemented Fair Trade aims and practices. This conceptual framework is based on the hypothesis that factors have influenced the development of Fair Trade in Peru and that the benefits of trade are not attained due to the lack of free market conditions. The features of development that will be considered are policy creation, institution development, elaboration of certification schemes, and market development.

An exploratory descriptive design was used employing an embedded single case study. The single case study refers to Fair Trade in Peru. There, two units of analysis were examined, handicrafts and coffee, which aimed to represent the two different Fair Trade approaches: the integrated supply chain, which is being implemented by WFTO members, and the product certification approach, which is basically understood as FLO's certification process. The research uses primary and secondary sources and relies mainly on qualitative methods, although quantitative methods were also employed while exploring the possibilities of a Fair Trade market in Peru.

Thus, this dissertation found that in Peru, Fair Trade emerged gradually in the 1980s in an erratic context, where external and internal conditions exercised significant influences. The external conditions were increasing economic liberalization, the declining role of governments, the break of international commodity agreements, and the concentration on transnational corporations, while the internal conditions were recession, hyperinflation, and political violence. In the 1990s, Fair Trade thrived in a background of neoliberalism, macroeconomic growth,

increasing inequality, and poverty mainly linked to rural and indigenous populations. Since the mid-2000s, it is noted that NGOs and Fair Trade groups have been working towards the institutionalization of Fair Trade.

NGOs and the State are found to have played key roles in the development of Fair Trade in Peru. Since the onset, NGOs have been supporting Fair Trade initiatives among poor and rural producers. NGOs like Grupo Red Economía Solidaria del Perú (GRESPE), the Red Peruana de Comercio Justo y Consumo Ético (RPCJyCE), along with others, aim to develop a national certification system, and a national market. Unlike NGOs, the government has only recently intervened in Fair Trade through its institution PROMPERU, which in 2009 launched a Fair Trade certification system for the textile sector. This system is directed to small and medium enterprises (SMEs) working with alpaca fabrics and cotton. Nowadays, it is found that more than 100 SMEs have already the national certification “Buenas Prácticas de Comercio Justo”. It is acknowledged, however, that the motive behind this Fair Trade endeavor was to access the advantageous ethical market niche. Therefore, this study finds that two different types of Fair Trade initiative can be distinguished in Peru. The first seems to follow the initial issues that Fair Trade aims to address, that is, supporting marginalized producers and providing them with access to markets. Organizations like the RPCJyCE and GRESPE for example, seem to approach Fair Trade based on solidarity and are driven by social concerns. On the other hand, the second approach is motivated by economic interests. As indicated by PROMPERU’s interviewed expert, the motive behind developing and implementing a national certification

system for the textile sector was solely determined after recognizing the opportunities the ethical market niche could offer.

Regarding Fair Trade practices, the studied handicrafts producer groups, CIAP and Minka Fair Trade, have been able to establish structured organizations which have allowed them to eliminate intermediation and reach quantities needed to export. They have gained resource access through clients' prepayments and have developed adequate payment systems aimed to address the needs of their producers. Furthermore, economic benefits in the way of improved payments have allowed them to improve their living conditions. In the case of the coffee cooperative analyzed, Cooperative Agraria Cafetalera La Florida, it was found that clients guarantee loans and provide prepayments, and that the economic benefits achieved through minimum prices and premiums are being used in the implementation of different projects. In this case, a payment system adequate for producers has also been established along with sustainable practices. It is concluded, however, that the organization of coffee producers into a cooperative cannot be accredited to Fair Trade.

The analysis of the market shows that the main destinations for Peruvian Fair Trade products are the European Union countries and the USA. The main exports being coffee, bananas, cocoa, and fresh fruits. While analyzing the prospects for a national market it was found that in a sample of prosperous, educated consumers from Lima, Fair Trade is recognized and would be positively accepted.

Considering the actual system of Fair Trade in Peru, this research finds that one of the main challenges to its expansion is limited demand. Minka's director

pointed out that the demand for Fair Trade products is limited. In the case of the studied artisanal community, producers work for Fair Trade only a few months a year. Similarly, it was found in conference minutes, that Neira, former vice-president of the Junta Nacional del Café (JNC), indicates that the Fair Trade market is restricted for many coffee producers due to the limited demand volumes. In these cases, to strengthen the monitoring of Fair Trade practices through the supply chain and the compliance of the Fair Trade principles could help surpass cases like the ones pointed out by Minka's director and the Chief of Institutional Development and Social Development from JNC, where companies buy products from non-Fair Trade producers who claim to be working under Fair Trade conditions. Avoidance of such acts could have a direct effect on the demand of Fair Trade products. Furthermore, the establishment of the national Fair Trade market could contribute to the increase in demand of Fair Trade products.

The creation of a national Fair Trade system as planned by the RPCJyCE could also offer advantages such as the ones mentioned by authors Nicholls and Opal (2005, 242) and Wilkinson and Mascarenhas (2007a, 133): reducing intermediation and transportation costs, expanding the range of products offered, and restructuring the value chain to make prices affordable. Nonetheless, this study considers that implementing a certification system and creating a market for Fair Trade products in Peru would be a monumental task for national Fair Trade advocacy actors. This would not only require an increase in consumer awareness, but the establishment of market strategies, broadening the existing commercialization channels, and

integrating public and private sector players (Wilkinson and Mascarenhas 2007a, 133). Therefore, this research concludes that support from the government is crucial.

Lastly, this study puts forward some recommendations. Accordingly, the institutionalization of data collecting methods and the convergence of Fair Trade organizations and the State are most important, if Fair Trade is to continue growing.